



# Weekly Observatory

August, 28th, 2009

## Weekly Highlights (24<sup>th</sup> – 28<sup>th</sup> August, 2009)

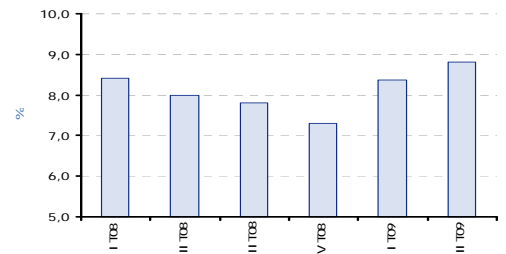
The week leaves signs of recovery of domestic credit. In Brazil, credit in July registered the highest y/y growth since the onset of the financial crisis; thus, in Chile, the rate of decay on this aggregate is stabilizing. In this last country, industrial production data points to a marginal, but nevertheless significant upturn. Regional participation in international trade tends to improve, as suggested by the increase in imports during July for Mexico and Peru.

### 1. Argentina

- Second Quarter data of the Permanent Household Survey (INDEC) showed that the unemployment rate reached 8.8%, (8% in the same quarter of 2008).

Labor force participation remained at 45.9% so labor supply only increased due to population growth, but the marginal increase in demand could not absorb the growth in supply. This result was below our expectations (9.2%) and we have revised our forecasts down, assuming that the labor situation will continue deteriorating in the next quarters reaching an average unemployment of 9.1% for the whole year.

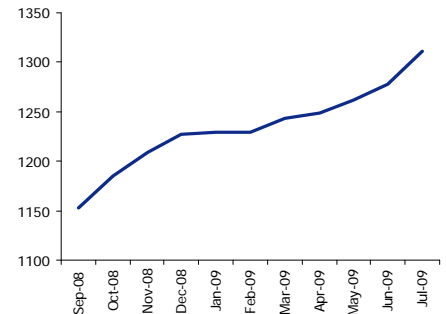
Argentina - Unemployment rate evolution



### 2. Brazil

- According to the latest data published by the Central Bank, credit grew 2.6% during July, the fastest rate of expansion in the last 9 months. The extended cycle of monetary easing, along with employment levels that have proven to be fairly resilient against the crisis, is supporting a rapid recovery of credit activity.
- The federal government posted a surplus on the fiscal balance for July, after 2 consecutive months of deficit. The primary fiscal balance reached 1.44bn reais, up from a deficit of 615 millions in June. This result, however, is far below the surplus registered on the same month of 2008 (7.2bn reais), mainly as a result of the cost of the anti-crisis policies set up by the Brazilian government.

Brazil: Domestic Credit (BRL bln)



Source: Bloomberg

### 3. Chile

- Industrial production decreased 10% y-o-y in July according to the SOFOFA. However, it increased 3% m-o-m using the seasonal adjusted series, the greatest increase since Jun 2008. The sectors that grew the most were metalmechanic and product of wood. On the other hand, industrial sales fell 7.5% y-o-y in July.
- Credit figures for July keep falling in the yearly comparison. Total lending fell from 3.3% y-o-y in Jun to 2.1% y-o-y in July. However, in monthly and seasonal adjusted terms, total lending and almost all its components improved in the margin. On the other hand, it was a good surprise the non performing loans fall from 1.34% to 1.3% between Jun and July.

Consumer credit flow nominal  
(Millions of USD Seasonally adjusted series)



4. Colombia

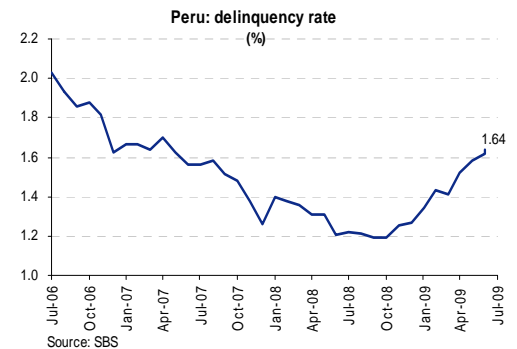
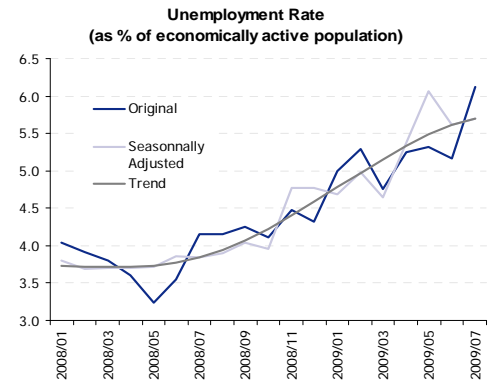
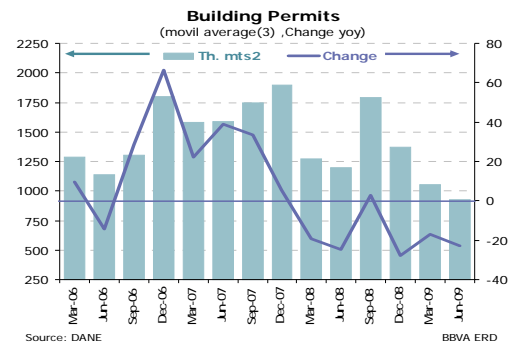
- In June, Building Permits declined 22.7% yoy (-26.9% in 1S09). It is worth noting the slighter decline in home permits during this month (-17%).
- Remittances fell 33.3% yoy in July, which represents a further decline from 10.5% to 14.3% year to date. This result is due to the fall of remittances from the United States and Venezuela (-20% a/a). ERD expects remittances to fall 20% in 2009.

5. Mexico

- Inflation for the first half of August (0.11% core and general) incorporated the low growth cycle and turned out lower than expected. Core inflation shows positive signs in services and non-food merchandise. The current dynamics of prices match with our forecasts, and we don't rule out it will end 2009 under 4%. July's Trade Balance reached -1275 MD, thanks to the recovery of merchandise exchange. Imports grew 1.1% for the second consecutive month, a trend that anticipates an eventual rise in exports and activity towards year's end. Unemployment reached 6.12% in July; however the seasonally adjusted series, shows it's growth moderated from 6.1% in May to 5.7% in July. Next week Consumer and Producer Confidence will be published, the first soft data from August.

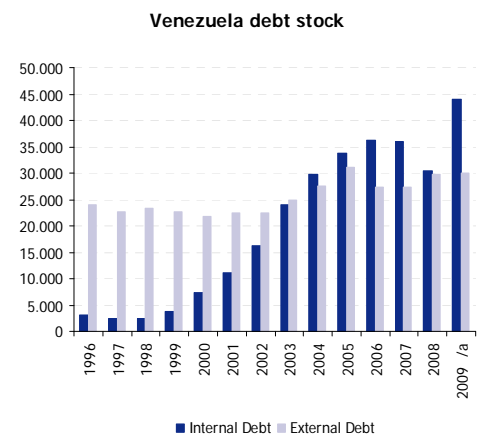
6. Peru

- Local cement dispatches rose 9.4% m/m in July, a positive result compared to the contraction shown during the first half of the year (average of -1.1% m/m). In this context, the Central Bank announced that it expects the Construction sector to have grown by 6.2%/y, higher than its yoy growth in 1H09 (1.9%). It is worth mentioning that mortgage lending in domestic currency has had an average increase of 2.5%/m/m in so far 2009.
- In July imports fell by 37.7%/y. For a second month in a row, the contraction pace slowed (-39.6%/y in June and -41.3%/y in May).
- Finally, the delinquencies rate on banks loans reached 1.64% at the end of July (1.62% in June and 1.22% in July 2008), thus continuing the slight upward trend recorded since late 2008.



7. Venezuela

- Capital inflow by USD 4,000 related to China's contribution to bilateral fund.** This amount would increase the joint Chinese-Venezuela fund up to USD 16,000 MM.
- REPSOL and PDVSA will constitute an oil joint venture.** The Spanish company will pay USD 207 MM for 40% of share in the oil exploitation in Zulia state, where it forecasts a production of 40.000 barrels per day.
- Internal debt rise to 44% in the first half of the year.** According to Ministry of Finance, in the first six month of the year the external debt stock closed at USD 29,894 MM while the domestic debt stock closed at USD 20,442 MM. With respect to December 2008 those figures represent increases of 0.1% and 44%, respectively



## The latest from markets

## Bond and Money markets

| Market                      | End   | Weekly Var. | Yearly Bp | Var. | Forecast. Dec 2009 |
|-----------------------------|-------|-------------|-----------|------|--------------------|
| <b>Argentina</b>            |       |             |           |      |                    |
| 7 day Central Bank rate     | 9,50  | 0           | 75        |      | ---                |
| Badlar rate                 | 12,56 | 6,25        | 19        |      | 17,00              |
| <b>Brazil</b>               |       |             |           |      |                    |
| Official Rate               | 8,75  | 0           | -425      |      | 8,50               |
| Andima 1 year bond          | 9,24  | 5           | -542      |      | ---                |
| <b>Chile</b>                |       |             |           |      |                    |
| Official rate               | 0,50  | 0           | -725      |      | 1,50               |
| Swap CLP                    | 0,60  | 3           | -791      |      | ---                |
| 10 year rate                | 5,60  | 3           | -233      |      | ---                |
| <b>Colombia</b>             |       |             |           |      |                    |
| Official Rate (BR)          | 4,50  | 0           | -550      |      | 6,00               |
| DTF                         | 5,10  | -3          | -471      |      | ---                |
| TES jul-2020                | 9,44  | -1          | -215      |      | ---                |
| <b>Mexico</b>               |       |             |           |      |                    |
| Official Rate (fondeo)      | 4,50  | 0           | -375      |      | 5,50               |
| 3 months rate               | 4,56  | -28         | -375      |      | 5,47               |
| 10 years rate               | 8,28  | 5           | -17       |      | 6,90               |
| <b>Peru</b>                 |       |             |           |      |                    |
| Official Rate               | 1,3   | 0,0         | -500,0    |      |                    |
| 10 years*                   | 5,8   | -7,0        | -212,0    |      |                    |
| <b>Venezuela</b>            |       |             |           |      |                    |
| Overnight-interbank (daily) | 2,6   | 173,0       | 142,0     |      | 5,00               |
| CD 28d (official)           | 6,0   | 0,0         | -800,0    |      | 6,00               |
| DPF 90d                     | 14,7  | 8,0         | -240,0    |      | 14,50              |

## Foreign exchange market

Depreciations in Latin American currencies respect to the dollar, particularly Mexican peso and Brazilian real.

| Exchange Rate              | End   | Weekly Var. % | Yearly Var. % | Forecast. Dec 2009 |
|----------------------------|-------|---------------|---------------|--------------------|
| <b>America</b>             |       |               |               |                    |
| Argentina (peso-dollar)    | 3,85  | 0,0           | 27,0          | 4,10               |
| Brazil (Real-dollar)       | 1,87  | 2,2           | 14,1          | 2,30               |
| Colombia (Peso-dollar)     | 2028  | 1,6           | 4,5           | 2543,00            |
| Chile (Peso-dollar)        | 550   | 1,1           | 7,4           | 590,00             |
| Mexico (Peso-dollar)       | 13,22 | 3,2           | 28,6          | 13,40              |
| Peru (New sol-dollar)      | 2,94  | -0,3          | -0,3          | 3,30               |
| Venezuela (Bolívar-dollar) | 2147  | 0,0           | 0,0           | 2700,00            |
| dollar-Euro                | 1,43  | 0,1           | -2,1          | 1,25               |

**Emerging Spreads**

Increased in Latin American country risk, highlighting the Argentinean Embi spread (79.6Bps).

| EMBI+ sovereign spreads | End  | weekly chg. Bps | Annual chg bps |
|-------------------------|------|-----------------|----------------|
| EMBI+                   | 375  | 8               | 65             |
| EMBI + Latin America    | 409  | 14              | 74             |
| Argentina               | 934  | 80              | 257            |
| Brazil                  | 263  | 10              | 16             |
| Colombia                | 272  | 7               | 41             |
| Chile*                  | 138  | 6               | -33            |
| Mexico                  | 233  | 16              | 42             |
| Peru                    | 246  | 2               | 37             |
| Venezuela               | 1001 | 15              | 344            |
| EMBI+ Asia              | 296  | 2               | 4              |
| EMBI+ Europe            | 345  | -1              | 80             |

**Commodity Markets**

Strong growth in oil consumption is giving enough support to keep it above USD 70/ barrel. Sugar remained firm partially in response to a disappointing monsoon season in India. Lead prices rose on supply concerns in China, while copper remained strong despite rising inventories and questions about the strength of fundamentals.

| Commodities         | End  | Weekly Var. % | Yearly Var. % | Forecast Dec 2009 |
|---------------------|------|---------------|---------------|-------------------|
| Brent (\$/b)        | 72,6 | -2,1          | -36,3         | 56,3              |
| Gold (\$/onza)      | 950  | -0,4          | 14,3          | 875,0             |
| Copper (c/lb)       | 284  | -0,2          | -17,1         | 165,0             |
| Soy (c/bush)        | 400  | 4,6           | -13,1         | 370,0             |
| Corn (c/bush)       | 114  | 0,6           | -43,2         | 350,0             |
| Goldman-Sachs Index | 464  | -2,2          | -34,6         | ---               |
| CRB Index           | 410  | -1,2          | -20,5         | ---               |

**Stock Markets**

Some decreases in Latin American stock exchanges, with losses concentrated in banking and commodity shares.

| Stock Exchange           | End   | Weekly Var. % | Yearly Var. % |
|--------------------------|-------|---------------|---------------|
| <b>The Americas</b>      |       |               |               |
| Argentina (Merval)       | 1778  | -1,1          | 0,1           |
| Brazil (Bovespa)         | 57704 | -0,04         | 3,6           |
| Colombia (General Index) | 10618 | 0,0           | 13,3          |
| Chile (IGPA)             | 15297 | -1,1          | 11,0          |
| Mexico (IPC)             | 28437 | 0,5           | 8,2           |
| Peru (Lima General)      | 14239 | -0,9          | 7,2           |
| Venezuela (IBC)          | 49422 | 3,0           | 21,4          |
| <b>USA</b>               |       |               |               |
| S&P 500                  | 1031  | 0,5           | -19,6         |
| Nasdaq 100               | 2028  | 0,3           | -14,4         |
| <b>Europe</b>            |       |               |               |
| Londres (FTSE)           | 4894  | 0,9           | -13,2         |
| EuroStoxx50              | 2405  | 0,7           | -17,5         |
| Ibex35                   | 11416 | 2,3           | -2,5          |
| Estambul-100             | 47430 | 0,6           | 19,0          |
| <b>Asia</b>              |       |               |               |
| Nikkei                   | 10534 | 2,9           | -19,4         |
| China                    | 2861  | -3,4          | 19,3          |

## The week ahead

| Day              | Country   | Indicator                                 | Period | Last/prev | Mkt Forecast | BBVA          |
|------------------|-----------|---|--------|-----------|--------------|---------------|
| <b>Monday</b>    |           |   |        |           |              |               |
|                  | Argentina | Public Services statistics                | July   | 15,2% a/a |              |               |
|                  | Argentina | Synthetic Indicator Construction Activity | July   | 5,5% a/a  |              |               |
|                  | Chile     | Weekly economic indicators (CBCh)         | August |           |              |               |
|                  | Colombia  | Unemployment Rate                         | July   | 0         |              | 13,2%         |
|                  | Brazil    | Industrial Production                     | July   | -10.9%    |              |               |
|                  | Brazil    | Trade Balance                             | August | \$2928M   |              |               |
| <b>Tuesday</b>   |           |   |        |           |              |               |
|                  | Argentina | Salary Index                              | July   | 19,4% a/a |              |               |
|                  | Perú      | Monthly Inflation                         | August | 0,0019    |              | BBVA:<br>0.1% |
|                  | Perú      | Inflation yoy                             | August | 0,03      |              | BBVA:<br>2.2% |
|                  | Venezuela | Unemployment                              | July   | June 7,8% |              |               |
| <b>Wednesday</b> |           |   |        |           |              |               |
|                  | México    | Manufacturing opinion index               | August | NA        | NA           | NA            |
| <b>Thursday</b>  |           |   |        |           |              |               |
|                  | México    | Manufacturing IMEF                        | August | 50        | NA           | NA            |
| <b>Friday</b>    |           |   |        |           |              |               |
|                  | México    | Consumer confidence                       | August | 85.4      | 86           | 86            |

## Macroeconomic Indicators

|           | GDP (yoy) |      |      |      |      | Inflation |     | Unemployment   |      | Industrial Prod. |     | Sales |      | Exports |     | Trade Balance |     |
|-----------|-----------|------|------|------|------|-----------|-----|----------------|------|------------------|-----|-------|------|---------|-----|---------------|-----|
|           | 2Q09      | 1Q09 | 4Q08 | 3Q08 | 2Q08 | yoy       |     | (%active pop.) |      | yoy              |     | yoy   |      | yoy     |     | mUSD          |     |
| Argentina | 2,0       | 4,1  | 6,9  | 7,8  | 0,0  | 5,5       | Jul | 8,8            | 2T09 | -1,5             | Jul | 13,5  | Jun  | -30,0   | Jul | 1315,0        | Jul |
| Brazil    |           | -1,8 | 1,3  | 6,8  | 6,2  | 4,5       | Jul | 8,0            | Jul  | -10,9            | Jun | 5,6   | Jun  | -30,8   | Jul | 2928,0        | Jul |
| Chile     | -4,5      | -2,3 | 0,2  | 4,6  | 0,3  | 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  | 3,3       | Jul | 13,0           | Jun  | -6,6             | Jun | -4,5  | Jun  | -18,8   | Jun | 377,9         | Jun |
| México    | -10,3     | -8,0 | -1,6 | 1,7  | 2,9  | 5,4       | Jul | 6,1            | Jul  | -10,6            | Jun | -5,1  | Jun  | -34,7   | Jul | -209,3        | Jun |
| Peru      | -1,2      | 1,8  | 6,5  | 10,9 | 11,6 | 2,7       | Jul | 8,2            | Jul  | -12,2            | Jun | n.d.  | n.d. | -25,6   | Jun | 441,0         | Jun |
| Venezuela | -2,4      | 0,3  | 3,2  | 4,1  | 7,2  | 28,3      | Jul | 7,8            | Jun  | 11,4             | Mar | 20,5  | Mar  | 51,7    | Jun | 4572,0        | Jun |

Sources: Bloomberg, Reuter, and BBVA staff estimates.