



# Weekly Observatory

January 29th, 2010

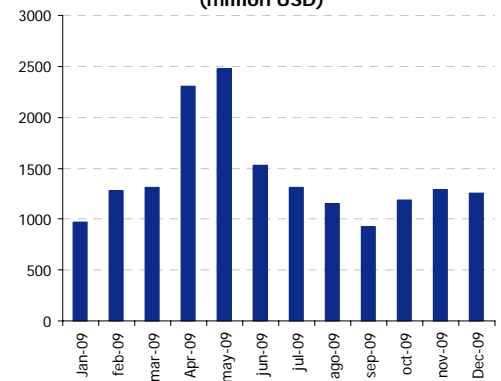
## Weekly Highlights (25<sup>th</sup>- 29<sup>th</sup> January 2010)

The latest meeting of the Monetary Policy Committee of the Central Bank of Brazil leaves once again the Selic unchanged. Trade balance data in Colombia and Argentina maintain a sizeable surplus, thanks to the performance of imports. Also in Argentina, the president of the Central Bank finally resigned, but the government positions was once again rebuffed at the courts. In Peru, new legislation deliver higher reserve requirements, as well as a new tax over capital gains. In Chile, stricter regulations concerning coverage of pension funds investments abroad caused a depreciation of the peso.

### 1. Argentina

- The President of the Central Bank finally resigned this week, after two adverse court rulings for the government. One of them stated that there are not extraordinary reasons to justify creating the Bicentennial Fund by decree without consulting Congress. The other ruling reaffirmed that the continuance or not of Martin Redrado as governor of the Central Bank should be resolved jointly by Congress and the Executive Power.
- The Balance of Trade in 2009 reached a record of USD 16,98 billion (about USD 0.4 billion above our estimates) because of strong exports of USD 55,75 billion (20.4% y/y fall) and imports of USD 38,77 billion (a fall of 32.5% y/y).

Argentina: Monthly Trade Balance (million USD)

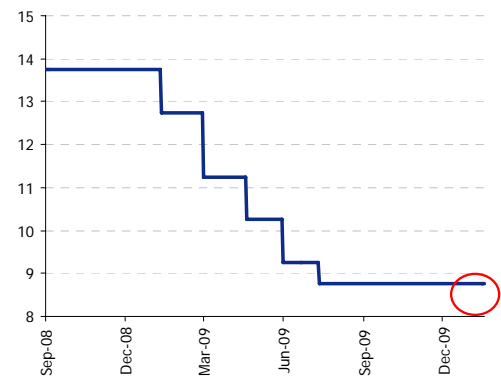


Source: Indec

### 2. Brazil

- In a unanimous decision, widely expected by analysts, the COPOM maintained the SELIC unchanged at 8.75%, without a bias. This latest pause comes however with a significant change in the statement, suggesting future tightening. This time the statement included the same cautionary note about the future course of monetary policy that was used on January 2008, 3 months before it raised interest. The wording, in sum, signals markets that a hike in the Selic is probable for early 2Q10 (in line with our forecasts).

Brazil: Selic rate (%)

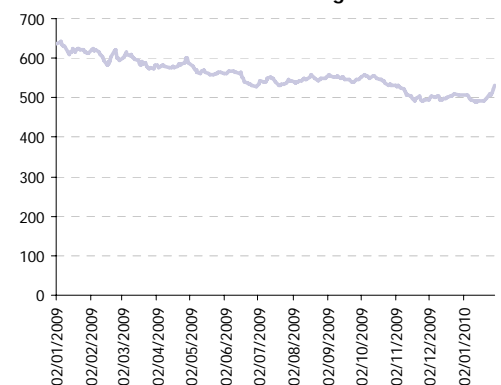


Source: Bloomberg

### 3. Chile

- The unemployment rate reached 8.6%, with a fall of 0.5%bp in the Oct-Dec moving average quarter, closing 2009 with an average rate of 9.7%. It is relevant to note the increase of salaried and self-employment components by 0.9% and 1.9% q/q, respectively. On the other hand, industrial production index fell 1.1% m/m in December, with a -0.3% variation y/y. Demand, however, continues its expansion, with an increase of 8.6% in the supermarkets sales index, its peak since 2001, and retail sales grew 10.1% y/y.
- The exchange rate depreciated 6.6% this week, due mostly to a change in regulations of currency risk coverage of investments abroad by the pension funds.

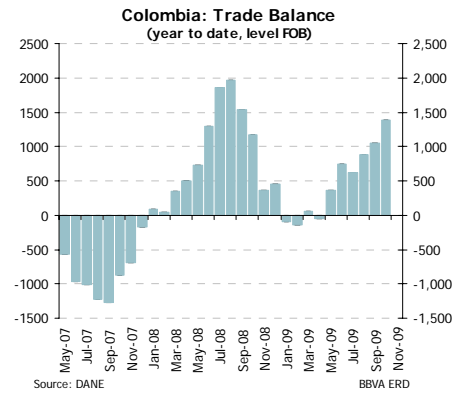
Chile: Nominal Exchange Rate



Source: BCCh

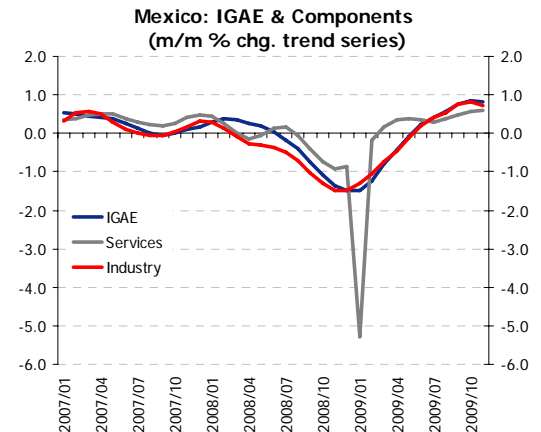
## 4. Colombia

- The Government announced structural changes to the nation's health system to reorganize it and make it financially viable.
- The trade balance accumulates a 1370 million dollar surplus between January and November of 2009.
- During November imports fell 14.2% yoy accumulating a decrease of 18.5% over the year. This was caused by a decrease in the imports of durable goods, capital goods for industry and transport equipment.



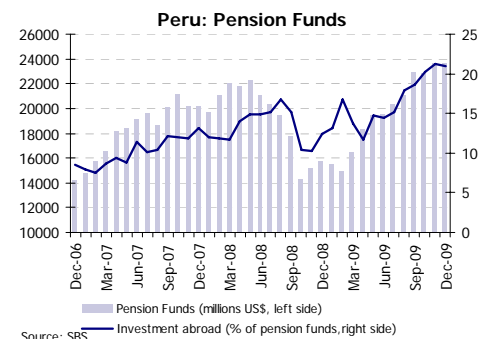
## 5. Mexico

- November's IGAE rose 1.5% mom (-1.5% yoy), due to growth in all of its components. Industrial production grew 1% mom (-1% yoy) led by manufacturing production tied to external demand. On the other hand, services grew 1.7% mom (-2% yoy), but its recovery lags somewhat when compared to industry. Activity recovery will continue relying on external demand, with a more direct impact on industry. Banxico published its inflation report for 4Q09, keeping the inflation outlook unchanged and raised its economic growth range from 2.5 to 3.5 to 3.2 to 4.2 for 2010. Next week the first expectations indicators for 2010 will be published, IMEF manufacturing index and the Consumer Confidence Index.



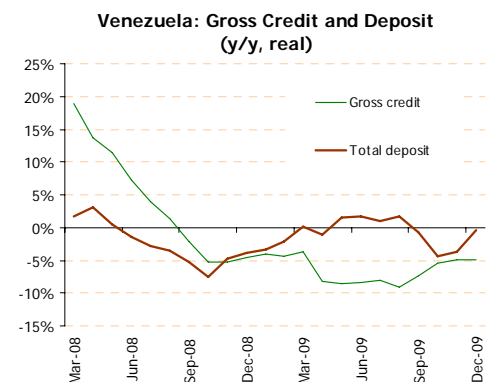
## 6. Peru

- Since 2010, capital gains arising from the sale of shares and securities (except for those ones issued by the Government or the Central Bank), interests on bank deposits, and non-residents' foreign exchange derivatives operations (with maturities of less than 60 days) will be taxed. In the latter case, it should be mentioned that residents' capital gains on foreign exchange derivatives operations were already being taxed (30%).
- In the last week, the Central Bank implemented two measures. In first place, it raised the reserve requirement ratio (to 35%) to foreign-currency short-term loans (maturity lower than two years) that financial institutions take abroad. Then, it increased the limit on private pension funds (AFP) investments abroad, from 22% to 24% (in October it increased it from 20% to 22%). As of January 15th, Pension Funds had about 20% of their portfolio invested in foreign assets. Thus, the scope for increased investment abroad amounts to approximately USD 500 million.



## 7. Venezuela

- Preliminary figures of banking gross credit indicate an increase of 20.7% (y/y), which implies a contraction of 4.9% y/y in real terms. The performance of mandatory credits, specially mortgage ones (43.4%), boosted banking loans. Total deposits grew 26.3% y/y, while in real values decreased 0.5%. Although the non performing loan rate continues decreasing since August (2.6%), the coefficient showed an increment with respect to December of 2008 (1.9%).
- By fifth time this month, the Central Bank (BCV) intervened in the non official exchange market. The total dollar bond sale is USD 218.3 MM, implying an exchange rate close to 4.9 BsF/USD. However, the exchange rate in the informal market is back to the levels previous to the devaluation (6.2 BsF/USD).



Source: Sudeban and own calculations

## The latest from markets

### Bond and Money markets

Market	End	Weekly Var.	Yearly Var. Bp	Forecast. Dec 2010
<b>Argentina</b>				
7 day Central Bank rate	9.00	0	-150	---
Badlar rate	9.69	-18.75	-463	16.00
<b>Brazil</b>				
Official Rate	8.75	0	-400	10.25
Andima 1 year bond	10.53	0	-60	---
<b>Chile</b>				
Official rate	0.50	0	-675	2.50
Swap CLP	0.60	-3	-492	---
10 year rate	6.42	2	95	---
<b>Colombia</b>				
Official Rate (BR)	3.50	0	-600	4.25
DTF	4.10	12	-552	---
TES jul-2020	8.71	14	-115	---
<b>Mexico</b>				
Official Rate (fondeo)	4.50	0	-325	4.50
3 months rate	4.61	1	-270	---
10 years rate	7.89	-7	21	---
<b>Peru</b>				
Official Rate	1.25	0	-525	2.00
10 years*	5.76	1	-150	0.00
<b>Venezuela</b>				
Overnight-interbank (daily)	1.29	-296	-1551	6.50
CD 28d (official)	6.00	0	-800	6.00
DPF 90d	14.66	-54	-278	14.50

### Foreign exchange market

A generalized depreciation this week, especially in the case of Brazil, Colombia and Chile.

Exchange Rate	End	Weekly Var. %	Yearly Var. %	Forecast. Dec 2010
<b>America</b>				
Argentina (peso-dollar)	3.82	0.3	9.5	4.16
Brazil (Real-dollar)	1.87	3.1	-19.0	1.75
Colombia (Peso-dollar)	1990	1.1	-18.2	2070
Chile (Peso-dollar)	533	4.8	-13.6	525
Mexico (Peso-dollar)	13.04	0.8	-8.7	12.70
Peru (New sol-dollar)	2.86	0.3	-10.0	2.85
Venezuela (Bolivar-dollar)	2.60-4.30	-	-	2.60-4.30
dollar-Euro	1.40	-1.3	8.9	1.34

## Emerging Spreads

General increase in country risk in the region, especially in Venezuela

EMBI+ sovereign spreads	End	weekly chg. Bps	Annual chg bps
EMBI+	298	12.2	-379
EMBI + Latin America	349	15.1	-370
Argentina	740	5.5	-817
Brazil	223	12.7	-225
Colombia	230	15.8	-292
Chile*	112	-2.9	-290
Mexico	179	4.5	-212
Peru	194	11.2	-269
Venezuela	947	58.1	-817
EMBI+ Asia	252	9.4	-320
EMBI+ Europe	226	8.6	-422

## Commodity Markets

Commodity prices went through another week of generalized downward correction as concerns with the macroeconomic outlook amount and as the dollar appreciates. Oil price accumulates an 8% decline year-to-date and is currently around USD 72 per barrel, the lowest price since the end of the last year.

Commodities	End	Weekly Var. %	Yearly Var. %	Forecast Dec 2010
Brent (US\$/Bbl)	72.0	-1.1	-7.6	74
Gold (US\$/Troy oz)	10	-4.8	-4.0	---
Copper (US\$/t)	6898	-6.7	-6.5	5181
Soybean (US\$/t)	329	-2.1	-10.4	330
Corn (US\$/t)	127	-1.2	-13.0	172
Goldman-Sachs Index	508	-2.3	50.6	---
CRB Index	485	-0.8	35.6	---

## Stock Markets

General fall in stock exchanges of the region, specially in Argentina and Peru.

Stock Exchange	End	Weekly Var. %	Yearly Var. %
<b>The Americas</b>			
Argentina (Merval)	2294	-1.6	113.0
Brazil (Bovespa)	65588	-1.0	66.9
Colombia (General Index)	11470	-0.6	47.3
Chile (IGPA)	17451	0.0	44.1
Mexico (IPC)	30811	-0.1	57.5
Peru (Lima General)	14498	-2.5	110.0
Venezuela (IBC)	59207	-0.1	67.1
<b>USA</b>			
S&P 500	1085	-0.7	31.3
Nasdaq 100	2179	-1.2	47.6
<b>Europe</b>			
Londres (FTSE)	5187	-2.2	25.0
EuroStoxx50	2477	-1.8	24.9
Ibex35	10952	-3.7	29.6
Estambul-100	54905	1.7	111.7
<b>Asia</b>			
Nikkei	10198	-3.7	27.6
China	2989	-4.5	50.2

## The week ahead

Day	Country	Indicator	Period	Last/prev	Mkt Forecast	BBVA
<b>Monday</b>						
	Argentina	Wage Index	Dec.	16,7% a/a		
	Chile	Weekly Situation Indicator	Dec.			
	Peru	Monthly inflation	Dec.	0.32%		BBVA: 0.3%
	Peru	Annual Inflation	Dec.	0.25%		BBVA: 0.4%
	Brazil	Trade Bal (FOB) - monthly	Jan.	\$1435M		
<b>Tuesday</b>						
	Brazil	Industrial Production YoY	Dec.	5.10%		
<b>Wednesday</b>						
	Mexico	IMEF manufacturing	Dec.	52.6	NA	52.8
<b>Thursday</b>						
	Colombia	Construction Licenses	Dec.	-13.0%		
	Mexico	Consumer Confidence Index	Jan.	80.1	NA	79.5
	Peru	Interest Rate of the Monetary Policy	Feb.	1.3%		1.25%
	Brasil	Car Sales (Anfavea)	Jan.	293026		
<b>Friday</b>						
	Chile	Imacec December 2009	Dec.			
	Colombia	CPI (MoM)	Dec.	0.08%		
	Colombia	CPI (YoY)	Dec.	2.00%		
	Brazil	IBGE inflation IPCA (MoM)	Jan.	0.0037		

## 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	0.0	7.7	Dec	9.1	3 T 09	10.4	Dec	10.5	Nov	16.7	Dic	1254.0	Dic
Brazil	-1.2	-1.6	-2.1	0.8	7.1	4.3	Dec	6.8	Dec	5.1	Nov	8.7	Nov	4.7	Dic	2178.0	Dic
Chile	-1.6	-4.7	-2.4	0.2	-1.4	-1.4	Dec	8.6	Dec	-0.3	Dec	-1.2	Nov	51.9	Dic	1599.2	Dic
Colombia	-0.2	-0.3	-0.5	-1.0	2.9	2.0	Dec	12.1	Nov	2.0	Nov	2.0	Nov	25.9	Nov	1187.8	Oct
Mexico	-6.2	-10.1	-7.9	-1.6	1.7	3.6	Dec	4.8	Dec	-1.0	Nov	-1.5	Nov	22.8	Dic	-248.0	Dic
Peru	-0.4	-1.1	1.8	6.5	10.7	0.3	Dec	7.9	Dec	-2.5	Nov	n.d.	n.d.	25.0	Nov	587.0	Nov
Venezuela	-4.5	-2.4	0.5	3.5	3.8	26.9	Dec	6.6	Dec	-14.3	Sep	17.6	Sep	-48.5	Sep	7550.0	Sep

Sources: Bloomberg, Reuter, and BBVA staff estimates.