Economic Research Department

BBVA

Latin America

Weekly Observatory

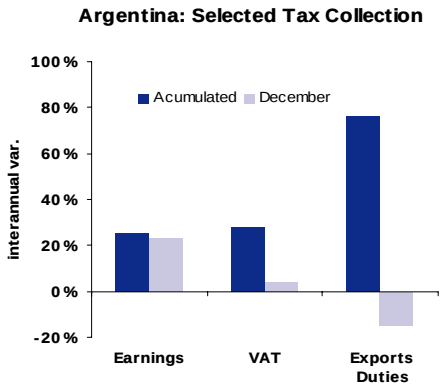
January 09th, 2009

Weekly Highlights (January 02th – January 09th, 2009)

In the monetary policy meetings of this week, Chile cut the interest rate by 100bp after a good inflation data, and puts downward bias on monetary policy. Peru kept rates unchanged, waiting for a reduction in inflation in coming months, but approved a new reduction of the reserve requirements. No signs of inflation moderation in Venezuela, Mexico and Colombia for the time being. With regards to activity, the industrial production in Brazil was especially negative, with a drop higher than 5%. Brazil and Colombia placed of USD1bn 10 yr bonds each, in the case of Colombia this action secures the external financing plan for 2009. Positive week on exchange rates, stock exchanges and country risk.

1. Argentina

- **Tax revenues increased 20.5% y/y during December, below consensus expectations, finalizing the year with a rise of 34.8%.** December figures confirm the slow down in fiscal revenues insinuated in November because. When excluding Social Security contributions, which prior to the recent reform were collected by private pension funds administrators (AFJP´s), the rise in revenues was only 15.8%. The greatest weaknesses were recorded in VAT collections which grew only 4.1% y/y and in export duties which dropped 15% in the same period due to the decline in international commodity prices.

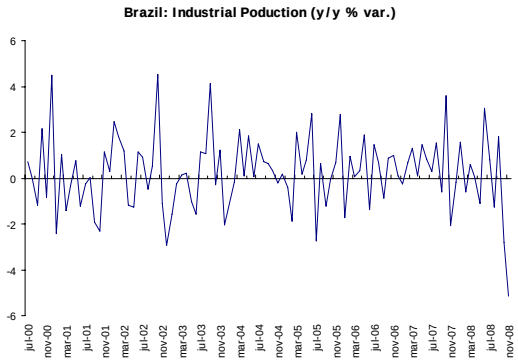


2. Brazil

- **Industrial production surprised with a decline of 5.2% y/y in November.** This is the biggest drop in almost 7 years. The fall was mainly influenced by the automotive industry (-22.4%) and machinery and equipment production (-11.9%).

- **The December trade balance recorded a decline of 38.2% y / y.** The positive balance of 24.735 million dollars in 2008 is below the 2007 surplus, which totaled 40.032 million dollars.

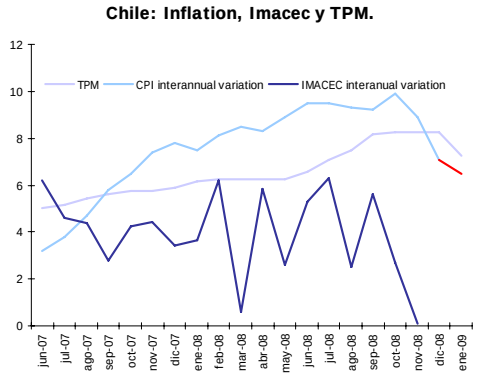
- **The government placed USD1bn 10yr bonds in the international markets at a 6.13% rate**



3. Chile

- **The Central Bank cut the monetary policy rate by 100 base points, to 7.25%**. Two factors influenced the decision: December's inflation was far lower than expected, with a 1.2% monthly fall. Thus, 2008 closed at 7.1% y-o-y inflation, which implies a significant reduction compared to previous months. Hence, consolidates the outlook of attaining the Central Bank target (2-4%) during 2009. On the other hand, **the Monthly Economic Activity Index (IMACEC) grew only 0.1% during November, showing a decrease in the economic growth pace.**

- Finally, the Central Bank Board indicated that, in the most likely scenario, the process of monetary easing will continue.

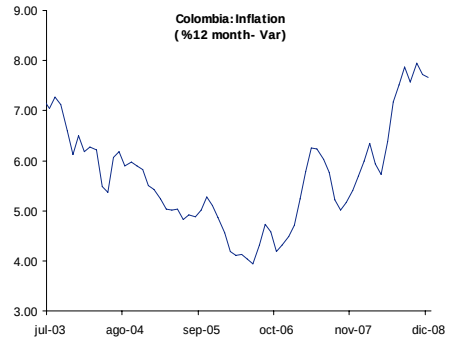


4. Colombia

- The government **taped markets with a 10 year global bond** for US$ 1000 millions, which assure the external finance for 2009. The bid cover ratio was 2,7.

- In December **consumer prices** grew 0.44%, which represents an inflation rate for 2008 of 7.7% Y-o-Y, above market forecast. This result is mainly explained by an increase in the price of perishable goods.

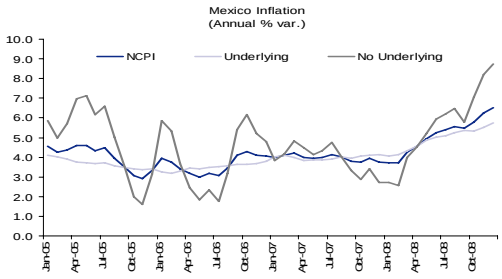
- Total **gross loans** growth rate decreased from 19.8% to 19.2% in November, mainly driven by a slower pace in commercial loans (23.5% Y-o-Y) and the downward trend in consumer loans (13.4% Y-o-Y).



5. Mexico

- **In December, the CPI and Core prices rose 0.69% (6.53% annually) and 0.62% (5.73%) respectively.** The CPI annual inflation was the highest since mid 2001 and above the Central Bank forcats for the last quarter (6%). Notwhistanding, we expect lower annual inflation for coming months because of the feable economy cycle, and recent energy prices cuts.

- **The Federal Government announced a counter-ciclical fiscal program. The size of the impulse is about 0.5 pp.**

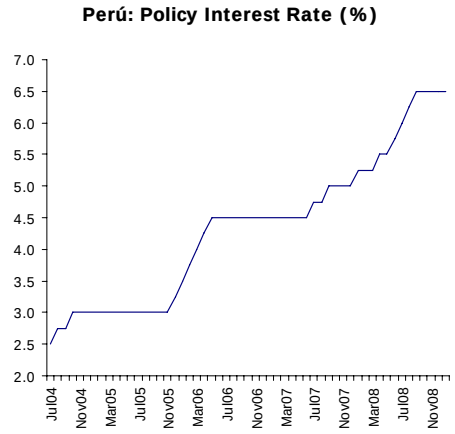


6. Peru

- **Inflation.** In December, y/y inflation reached 6.5% (0.36% m/m). In this way, the increasing trend it was showing seems to be coming to an end.

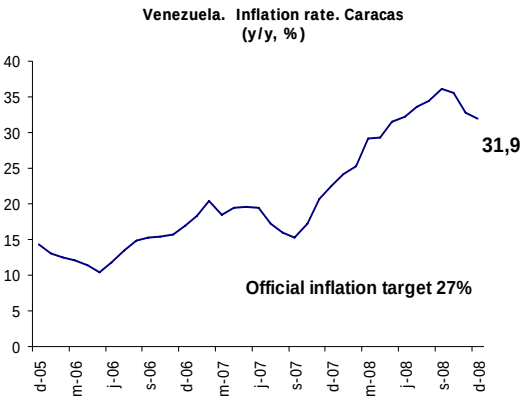
- **Monetary policy meeting.** The Central Bank's Board (BCR) kept the policy interest rate at 6.50%, as expected. The press release states that the BCR would ease its policy stance when inflation and expectations approach the inflation target (2%, +/- 1 pp). In addition, the Board decided to reduce reserve requirements in order to ensure a normal credit flow.

- **Credit rating.** The rating agency DBRS confirmed Peru´s long-term local and foreign currency public debt as investment grade (BBB), with a stable outlook. According to DBRS, Peru is relatively well positioned to weather current market volatility and the global economic downturn.



7. Venezuela

- **Persistent Inflationary Pressures.** National CPI rose 2.6% in December, 0.3 p.p. more than previous month y rounding an annual inflation rate of 30.9% for 2008. The group with larger increases were Food and Non-alcoholic beverages (3.9%), Restaurants and Hotels (3,8%) and Transportation (3.0%). The CPI for Caracas also rose 2.6% in December, completing the year 2008 at 31.9%.



The latest from markets

Bond and Money markets

Market	End	Weekly Var.	Yearly Var. Bp	Prev. Dec 2008
Argentina				
7 day Central Bank rate	11.00	0	275	---
Badlar rate	18.69	13	956	20.00
Brasil				
Official Rate	13.75	0	250	11.75
Andima 1 year bond	12.21	-17	12	---
Chile				
Official rate	7.25	-100	225	5.25
Swap CLP	7.07	0	50	---
10 year rate	5.74	-19	264	---
Colombia				
Official Rate (BR)	9.50	0	0	8.00
DTF	9.73	-9	78	---
TES jul-2020	10.13	-44	-36	---
México				
Tipo oficial (Tasa de fondeo bancaria)	8.25	0	75	5.50
3 months rate	8.09	2	46	8.30
10 years rate	7.70	-27	-50	8.75
Perú				
Tipo oficial	6,50	0	125	6,00
Tipo 10 años*	7.06	-39	84	---
Venezuela				
Overnight-interbancaria (diaria)	17.9	-1282	-320	26.4
CD 28d (oficial)	13.0	0	200	13.5
DPF 90d	17.2	-107	587	18.0

Foreign exchange market

Light appreciations of Latin American currencies. Emphasizes the peso appreciation due to high liquidity in dollars in the foreign exchange market in that country. While Peru has been the only country with a slight depreciation due to the maturity of deposits in local currency and increased domestic demand for foreign exchange.

Exchange Rate	End	Weekly Var. %	Yearly Var. %	Prev. Dec 2008
America				
Argentina (peso-dollar)	3.45	-0.2	10.3	3.90
Brazil (Real-dollar)	2.30	-1.5	31.5	2.10
Colombia (Peso-dollar)	2210.38	-1.3	12.4	2443.0
Chile (Peso-dollar)	627.30	-2.2	31.6	603.0
México (Peso-dollar)	13.70	-0.7	25.5	12.83
Peru (New sol-dollar)	3.17	1.5	8.5	3.25
Venezuela (Bolívar-dollar)	2147.30	0.0	0.0	2.70
dollar-Euro	1.37	-1.2	-7.4	1.15

Emerging Spreads

Mixed results in the emerging countries spread due to in some countries have begun to take rescue measures in view of the economic deterioration

EMBI+ sovereign spreads	End	weekly chg. Bps	Annual chg bps
EMBI+	655	-9.8	405.5
EMBI + Latin America	690	-8.4	417.2
Argentina	1636	-44.9	1217.1
Brazil	426	20.8	201.2
Colombia	502	27.6	281.5
Chile*	361	21.4	206.2
México	357	4.1	199.8
Perú	456	-28.8	273.5
Venezuela	1644	-195.9	1159.4
EMBI+ Asia	572	21.2	327.1
EMBI+ Europe	629	-24.5	423.6

Commodity Markets

Grain prices remain strong due to dry weather conditions in South America. Latest macro-economic data and geopolitical factors, both the conflict in the Middle-East and supply disruptions of Russian gas to Europe, has lead to falls of the rest of prices commodities

Commodities	End	Weekly Var. %	Yearly Var. %	Forecast Dec 2008
Brent ($/b)	45.2	-3.7	-50.4	47.2
Gold ($/onza)	854	-2.4	-4.6	750
Copper (c/lb)	143	-1.2	-56.6	160
Soy (c/bush)	342	1.4	-19.4	336
Coffee (c/lb)	132	1.0	-7.4	124
Corn (c/bush)	146	0.5	-13.2	147.0
Goldman-Sachs Index	373	0.7	-23.5	---
CRB Index	764	-0.1	-6.3	---

Stock Markets

The new banking measures have caused that some stock markets corrected its positions volumes. However, in Latin America were widespread gains with the exception of Mexico and Venezuela.

Stock Exchange	End	Weekly chg %	Yearly chg %
America			
S&P 500	910	-2.4	-35.1
Nasdaq 100	1617	-0.9	-33.7
Argentina (Merval)	1192	4.3	-42.8
Brazil (Bovespa)	41991	4.3	-32.2
Colombia (Ind. General)	7720	1.3	-24.8
Chile (IGPA)	11800	2.1	-10.5
México (IPC)	21955	-5.6	-23.6
Perú (General Lima)	7209	2.3	-56.3
Venezuela (IBC)	34935	-0.4	-8.8
USA			
S&P 500	910	-2.4	-35.1
Nasdaq 100	1617	-0.9	-33.7
Europe			
Londres (FTSE)	4477	-1.9	-27.8
EuroStoxx50	2162	0.9	-38.9
Ibex35	9394	-1.0	-35.0
Estambul-100	26467	-2.0	-49.0
Asia			
Nikkei	8837	-0.3	-37.4

China	1905	4.6	-65.3

The week ahead

Day	Country	Indicator	Period	Last/prev	Mkt Forecast	BBVA
Monday						
	Mexico	Gross Fixed Investment	Oct	7.6%	4.5%	2.5%
Tuesday						
	Argentina	CPI	Dec	0,3% m/m		0,6% m/m
	Argentina	Wholesale prices index	Dec	- 0,3% m/m		
	Argentina	Construction cost index	Dec	0,3% m/m		
Wednesday						
	Chile	Monetary Policy Inform				
	Chile	Financial Stability Inform				
	México	IGAE	Oct.	1.9%	-1.8%	-0.62%
Thursday						
	Colombia	Vehicles Sales	Dec	17750 U		
	Perú	GDP	Nov	8,7%		6,4%- 6,8%
	Perú	Unemployment	Nov	7,7%		
	Venezuela	Interest Rates	26/12/2008	17% (DPF)		
Friday						
	Mexico	Monetary Policy Decision	Jan	8.25	7.88	7.75
	Venezuela	Weekly average price of Venezuelan oil basket		32,14 US$/Barrel		

Macroeconomic Indicators

	GDP (yoy)						Inflation		Unemployment		Industrial Prod.		Sales		Exports		Trade Balance	
	3Q 08	2Q 08	1Q 08	4Q 07	3Q 07	2Q 07	yoy		(% active pop.)		yoy		yoy		yoy		m USD	
Argentina	6.5	7.6	8.3	9.1	8.8	7.9	Nov	7.8	3 T 08	2.6	Oct	37.5	Nov	-5.8	Nov	952	Nov	Nov
Brazil	6.8	6.2	6.1	6.1	5.4	6.4	nov	7.6	nov	1.3	oct	10.1	oct-08	5.0	nov	1613.0	nov	nov
Chile	4.8	4.5	3.3	4.0	3.9	8.9	nov	7.5	nov	-5.7	nov	-6.6	nov	-19.2	nov.	11221	nov.	nov.
Colombia	3.1	3.8	4.5	7.9	6.2	7.73	Nov	10.8	Nov	-7.5	Oct	-0.1	Oct	24.8	Sep	-433	Sep	Sep
Mexico	1.6	2.8	2.6	4.2	3.4	6.23	Nov	4.1	Oct	2.7	Nov	0.0	Oct	16.0	jun	-2834	Nov.	Nov.
Peru	9.5	10.9	9.7	9.8	8.8	6.65	Dec	7.9	Nov	4.5	Oct	n.d.		-9.5	Oct	-293	Oct	Oct
Venezuela	4.6	7.1	4.9	8.5	8.6	32.7	nov	6.7	Oct	-6.8	Aug	12.3	Aug	66.7	sep	19,201	sep	sep

Sources: Bloomberg, Reuter, and BBVA staff estimates.