



Weekly Observatory

July 4th, 2008

Weekly Highlights (June 27th-July 4th, 2008)

Second consecutive week of generalized country risk increases and stock exchange falls. June inflation surprises to the upside in Chile, Colombia and Peru, while activity data confirms the moderation trend in Brazil, Colombia and Mexico. Next week, and in light of the worsening of inflation, we expect rate increases of 50 bps. at the central bank meetings taking place in Chile and Peru.

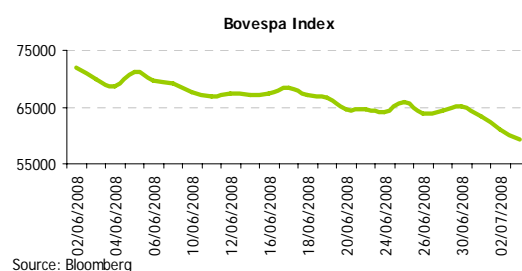
1. Argentina

- **Fiscal Revenues** increased 31% (y/y) in June, at a lower pace than in the first 4 months of the year when they were rising at a 44% rate. Both VAT and Bank Debit and Credit tax collections fell below the levels recorded in May. Export taxes – affected by the farm conflict- increased 50% (compared to 100% in the previous months).
- The **nominal exchange rate** continued to appreciate towards 3 pesos per dollar. The Central Bank reference exchange rate averaged \$3.0237 pesos per dollar this week, slightly below the 3.0247 it had reached last Friday.



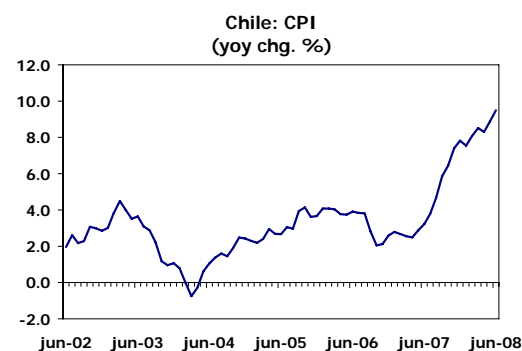
2. Brazil

- **Industrial Production index** grew 2.4% in May from the same month a year ago, a value that falls below expectations (4.2%), signaling a possible deceleration in economic activity.
- We also highlight this week the recent evolution of the Sao Paulo Stock Exchange. The **Bovespa** index falls 8.8% since Tuesday, standing below 60.000 for the first time since March. Greater-than-expected losses on the country's second airliner add to the generalized retreat on extractive industries, affected by rumors of a future decreases in commodity prices.



3. Chile

- June **inflation** reaches yoy record levels. The mom change was 1.5%, above market expectations (1.0% to 1.3%). Yoy change in CPI stands at 9.5%, farther from Central Bank's target ($3 \pm 1\%$), and above last month's rate of 8.9%.



• We believe that the Central Bank will have to raise its **monetary policy rate** (MPR) by 50 bps after next Thursday's Board Meeting. Moreover, we expect a hawkish tone afterwards that will hint at further rate increases in the near future.

4. Colombia

• National Statistics Department (DANE) announced that Colombia's **Gross Domestic Product** expanded 4,1% (YoY) in the first quarter of 2008 (1Q08), slowing its pace from a revised 9,1% expansion in the same period of 2007. DANE also announced that the real GDP base year was changed from 1994 to 2000 and some new methodology was also introduced.

• Colombia's **inflation** rate rose 0,86% (MoM) in June, more than forecasted. Annual inflation quickened to 7,18% (YoY), above Central Bank's 3,5% to 4,5% target for this year.

5. Mexico

• The **Global Activity Index** shows a gradual moderation in April (6.2% annual growth). For the Industrial sector, the moderation was more acute as long as the manufacturing and construction activities continue their feeble pace since January along with the current phase of the business cycle. On the other hand, services in México had an annual growth (6.7%) higher than the overall economy.

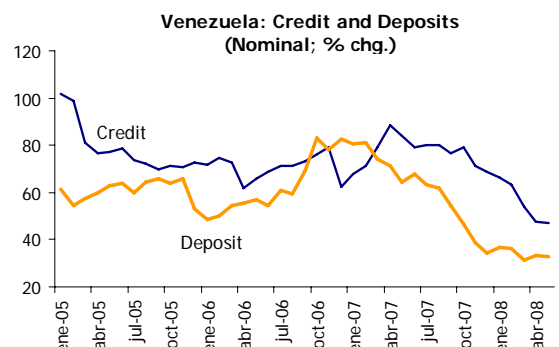
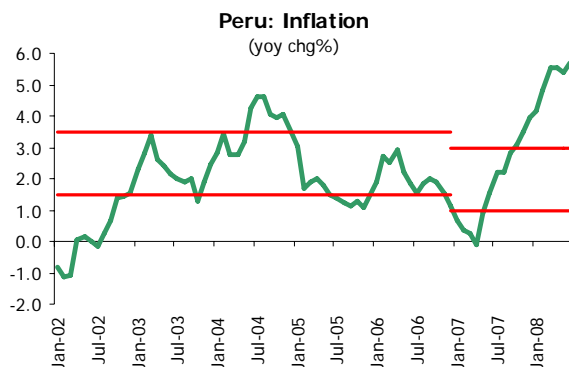
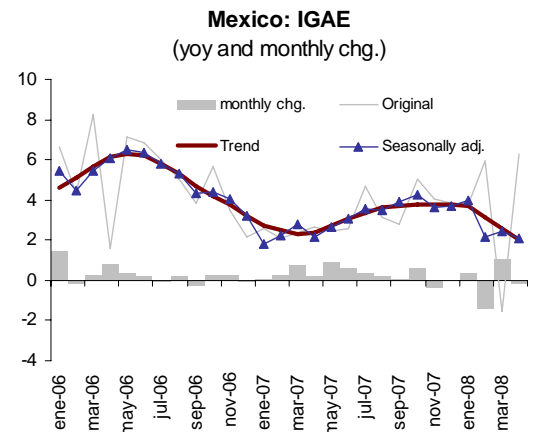
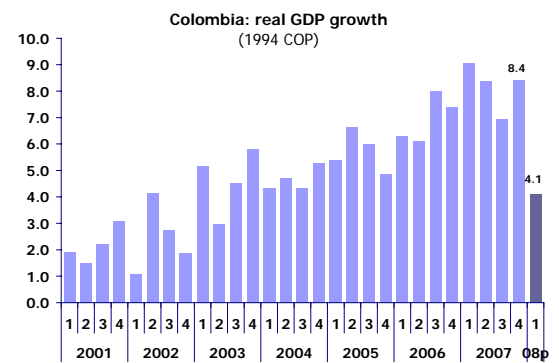
6. Peru

• **CPI.** In June, CPI inflation reached 5,71% y/y (0,77% m/m). The upward inflationary trend is related to increases in food and energy prices that are basically arising from supply side factors (rising commodities' prices).

• **Monetary policy meeting.** We expect Peru's Central Bank Board to tighten the stance of monetary policy in its next meeting (July 10). This expectation considers the high persistence that commodity prices upsurge (food and oil prices, in particular) is showing, rising inflation expectations, and that domestic demand growth remains outpacing that of potential output.

7. Venezuela

• **Credit and deposit.** The Superintendence of Banks published the banking system figures for May, with most important financial aggregates showing deceleration. Nominal gross credit increased by 2,9%, a change that represented a y/y increment of 47,1%. Total deposits also slowed down, posting a y/y growth rate of 32,6%, the lowest for May since 2003. Notwithstanding these trends, the banking profit indicators have kept high ROE and ROA levels, 29,9% and 2,5%, respectively. This is due to the propensity of the banking sector to allocate loans personal consumption, the segment with the highest interest rates of the market. The current share of this kind of credits is 24,8%.



The latest from markets

Debt and Money markets

| Market | End | Weekly Var. | Yearly Var. Bp | Prev. Dec 2008 |
|--|-------|-------------|----------------|----------------|
| Argentina | | | | |
| 7 day Central Bank rate | 8.25 | 0 | 75 | --- |
| Badlar rate | 14.31 | 181 | 738 | 16.00 |
| Brasil | | | | 0.00 |
| Official Rate | 12.25 | 0 | 25 | 13.50 |
| Andima 1 year bond | 14.73 | 49 | 380 | --- |
| Chile | | | | 0.00 |
| Official rate | 6.75 | 0 | 175 | 7.00 |
| Swap CLP | 7.90 | 33 | 265 | --- |
| 10 year rate | 3.35 | -20 | 11 | --- |
| Colombia | | | | 0.00 |
| Official Rate (BR) | 9.75 | 0 | 75 | 9.75 |
| DTF | 9.80 | -12 | 142 | --- |
| TES jul-2020 | 12.67 | 40 | 279 | --- |
| México | | | | 0.00 |
| Tipo oficial (Tasa de fondeo bancaria) | 7.76 | 0 | 48 | --- |
| 3 months rate | 8.06 | 2 | 70 | 6.53 |
| 10 years rate | 9.13 | 7 | 146 | 6.90 |
| Peru | | | | 0.00 |
| Official Rate | 5.75 | 0 | 125 | 6.00 |
| 10 year rate | 7.19 | 53 | 133 | --- |
| Venezuela | | | | 0.00 |
| Overnight (daily) | 9.40 | 890 | 306 | 9.67 |
| CD 28d (official) | 13.00 | 0 | 3 | 13.50 |
| DPF 90d | 17.74 | 54 | 766 | 18.00 |

Currency Markets

Appreciation of the Colombian peso, due to external factors (dollar weakness) as well as the favourable expectations of capital flow arrivals. Milder appreciations in Chile and Perú.

| Exchange Rate | End | Weekly Var. % | Yearly Var. % | Prev. Dec 2008 |
|----------------------------|-------|---------------|---------------|----------------|
| America | | | | |
| Argentina (peso-dollar) | 3.02 | -0.1 | -2.7 | 3.20 |
| Brazil (Real-dollar) | 1.61 | 0.3 | -15.4 | 1.70 |
| Colombia (Peso-dollar) | 1745 | -7.7 | -10.9 | 1925.20 |
| Chile (Peso-dollar) | 509 | -2.3 | -2.3 | 465.00 |
| México (Peso-dollar) | 10.35 | 0.4 | -4.1 | 10.95 |
| Peru (New sol-dollar) | 2.90 | -2.3 | -8.3 | 2.70 |
| Venezuela (Bolívar-dollar) | 2147 | -- | 0.0 | 2.20 |
| dollar-Euro | 1.57 | -0.2 | 15.3 | 1.48 |

Emerging Spreads

Generalized increase in country risk, during a week with notable capital flow reversals from Latin America.

| EMBI+ sovereign spreads | End | weekly chg. Bps | Annual chg bps |
|-------------------------|-----|--------------------|-------------------|
| EMBI+ | 288 | 27 | 120 |
| EMBI + Latin America | 297 | 27 | 109 |
| Argentina | 606 | 25 | 294 |
| Brazil | 221 | 24 | 64 |
| Colombia | 216 | 35 | 98 |
| Chile* | 170 | 5 | 89 |
| México | 161 | 23 | 72 |
| Perú | 187 | 25 | 77 |
| Venezuela | 607 | 46 | 293 |
| EMBI+ Asia | 300 | 28 | 155 |
| EMBI+ Europe | 265 | 28 | 128 |

Commodity Markets

Oil prices continue to move upwards. The main facts supporting prices this week are IEA forecasts that indicate that oil supplies will tighten more in the next five years, growing concerns about an Israel - Iran conflict and reductions in US inventories. Dollar and commodities prices continue correlated.

| Commodities | End | Weekly Var. % | Yearly Var. % | Forecast Dec 2008 |
|---------------------|-------|---------------|---------------|-------------------|
| Brent (\$/b) | 146.4 | 4.3 | 93.6 | 103.7 |
| Gold (\$/onza) | 934 | 0.7 | 42.4 | 875.0 |
| Copper (c/lb) | 400 | 1.4 | 10.8 | 282.7 |
| Soy (c/bush) | 1508 | 1.0 | 98.2 | 1092.0 |
| Coffee (c/lb) | 156 | 5.3 | 30.7 | 145.0 |
| BBVA-MAP Index | 309 | 2.4 | 46.1 | --- |
| Goldman-Sachs Index | 584 | -0.3 | 44.2 | --- |
| CRB Index | 846 | -4.1 | 37.8 | --- |

Stock Markets

Latin American indices tumble, particularly Chile, Brazil and Peru. Investment climate suffers after rumors pointing to a possible fall in commodity prices, and to the effect that inflationary trends might have over economic growth.

| Stock Exchange | End | Weekly Var. % | Yearly Var. % |
|-------------------------|-------|---------------|---------------|
| The Americas | | | |
| Argentina (Merval) | 1998 | -4.5 | -11.1 |
| Brazil (Bovespa) | 59273 | -7.8 | 5.0 |
| Colombia (Ind. General) | 9173 | -0.1 | -14.6 |
| Chile (IGPA) | 13501 | -8.3 | -9.8 |
| México (IPC) | 28466 | -2.8 | -12.2 |
| Peru (General Lima) | 15136 | -7.4 | -34.0 |
| Venezuela (IBC) | 38258 | 3.0 | -4.9 |
| USA | | | |
| S&P 500 | 1263 | -1.2 | -17.5 |
| Nasdaq 100 | 2245 | -3.0 | -15.8 |
| Europe | | | |
| Londres (FTSE) | 5432 | -1.8 | -18.8 |
| EuroStoxx50 | 2862 | -0.5 | -28.1 |
| Ibex35 | 11869 | -1.8 | -21.2 |
| Estambul-100 | 34503 | -3.7 | -30.9 |
| Asia | | | |
| Nikkei | 13238 | -2.3 | -27.0 |
| China | 2670 | -2.9 | -29.4 |

Source: JP Morgan. This information reflects our opinion and it has been elaborated with data deemed reliable. But by no means entails a recommendation for buying or selling financial assets

The week ahead

| Day | Country | Indicator | Period | Previous | Mkt. Forecast | Comment |
|-----------|-----------|------------------------------|--------|------------|---------------|-----------------------------|
| Monday | Brazil | inflation IPCA (mom) | June | 0.79% | 0.82% | |
| | Brazil | inflation IPCA (yoy) | June | 5.58% | 6.10% | |
| | Chile | IMACEC (GDP) | May | 4,8% | | 2,5% BBVA |
| | Chile | Trade Balance | June | 993 mm USD | | |
| | Venezuela | inflation IPC-AMC | June | 3,5% | | Deceleration. Forecast 2,1% |
| Tuesday | | | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| Wednesday | Chile | Economic Expectations Survey | July | | | |
| | México | Headline inflation | June | -0.11% | 0.39% | 0.44 |
| | México | Core inflation | June | 0.50% | 0.43% | 0.44 |
| | México | Headline inflation | June | 4.95% | 5.24% | 5.28 |
| Thursday | Chile | Monetary Policy Meeting | July | 6,75% | 7,00-7,25% | 7,25% BBVA |
| | Perú | Monetary Policy Meeting | July | 5,75% | | 6.25% BBVA |
| | | | | | | |
| | | | | | | |
| Friday | Argentina | CPI | June | 0.60% | | 0,6% |
| | Perú | Trade Balance | May | 397 M.\$. | | |

Macroeconomic Indicators

| | GDP (yoy) | | | | Inflation | | Unemployment | | Industrial Prod. | | Sales | | Exports | | Trade Balance | |
|-----------|-----------|-------|-------|-------|-----------|-------|-----------------|------|------------------|-------|-------|-----|---------|-----|---------------|-----|
| | | | | | | | | | | | | | | | | |
| | 1Q 08 | 4Q 07 | 3Q 07 | 2Q 07 | yoy | | (% active pop.) | | yoy | | yoy | | yoy | | m USD | |
| Argentina | 8.4 | 9.1 | 8.8 | 8.6 | 9.1 | may | 8.4 | 1Q08 | 6.9 | may | 32.3 | apr | 27.9 | may | 1005 | may |
| Brazil | 5.8 | 6.2 | 5.6 | 5.4 | 5.6 | may | 7.9 | may | 5.9 | abr | 8.7 | apr | 41.4 | may | 4077 | may |
| Chile | 3.0 | 4.0 | 3.9 | 6.2 | 9.5 | jun | 8.0 | may | -2.4 | may | -3.3 | may | -15.0 | may | 993 | may |
| Colombia | 4.1 | 8.4 | 6.9 | 8.4 | 7.2 | jun | 11.8 | may | 9.8 | abril | 1.2 | apr | 34.3 | apr | 506 | apr |
| Mexico | 2.6 | 4.2 | 3.4 | 2.6 | 5.3 | 1QJun | 3.2 | may | 5.5 | abr | 7.3 | apr | 9.0 | may | -61 | may |
| Perú | 9.3 | 9.7 | 8.9 | 8.5 | 5.7 | jun | 7.9 | may | 16.5 | abr | n.d. | | 25.9 | apr | 400 | apr |
| Venezuela | 4.8 | 8.5 | 8.7 | 7.8 | 31.4 | may | 7.9 | may | -7.9 | abr | 40.7 | mar | 59.4 | mar | 11105 | mar |

Sources: Bloomberg, Reuter, and BBVA staff estimates.