



Weekly Observatory

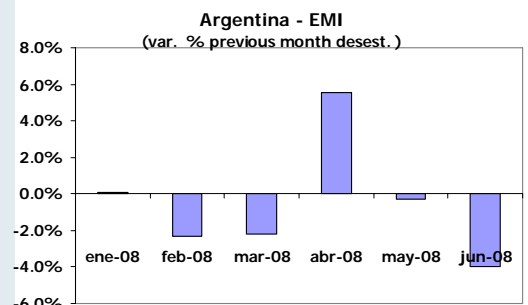
July 24th, 2008

Weekly Highlights (July 18th-July 24th, 2008)

Monetary Authorities continue to respond to the inflationist rally. Brazil surprises analysts by increasing the SELIC rate above the consensus. In Colombia, the Central Bank will meet tomorrow, and we expect an increase of 25bp in the reference rate. Activity data throws mixed results: the agricultural conflict in Argentina has affected the monthly industrial estimator negatively, but we expect an improvement due to its eventual resolution. On the other hand, Mexico's commercial market activity has been positive. Next week Peru will release inflation rates for June, and we expect a 0.5% mom increase (5.7% yoy).

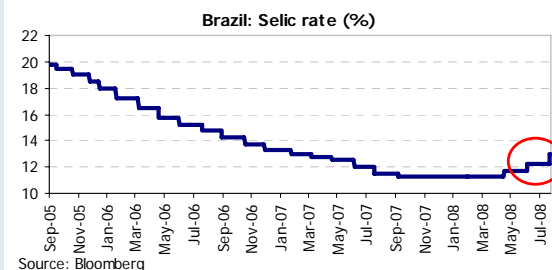
1. Argentina

- During **June** the **Monthly Industrial Estimator (EMI)** fell strongly with respect to May (-4% on a seasonally adjusted basis) as road blockages and the continuation of the farmers' strike affected input delivery to many industrial locations. On a year over year basis, the index only rose 1.6%.
- The most affected sectors were **Food and Beverages** (-14.5% over May), **Automobiles** (-8.3%) and sectors linked with the **construction industry** (-9%).
- Industrial activity is expected to rebound in July due to the settlement of the conflict with the agricultural sector, which will enable normal delivery of inputs to manufacturers.



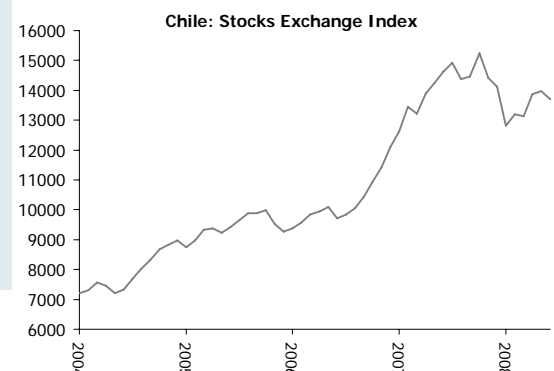
2. Brazil

- The last meeting of the monetary policy committee ends up with an **increase in the Selic rate of 75 bps**, above market expectations, and leaving such rate at 13%. This is the third consecutive meeting that results in rate increases, adding up to a total of 175 bps since April. The decision has been unanimous, signalling the concern of the monetary authority about the path that inflation is taking in Brazil.



3. Chile

- Last Thursday, in an unprecedented case in Chile, **the Securities and Insurance Supervisor (SVS)** announced it will apply 3 sanctions for revealing privileged information and 5 sanctions because of the use of this information related to the failed merge between Chilean retail giants Falabella and D&S. The accused people, that have 10 days for appealing, must pay US\$



4,9 million, split up between fines amounting to US\$ 2,2 millions and devolution of benefits of about US\$ 2,7 million. At the moment of his announcement the superintendent, Guillermo Larraín, said that “what we have to protect is the confidence in the market”. In this sense, two other cases of equity trading in the agenda of the SVS are the announcement of an alliance between the firms Madeco and Nexans, and the information of an expansion to Mexico in the operation of Ripley, another local retailer.

- On the other hand, **the market reaction** (to the SVS measure) seems to be positive, with most people saying that this will produce a cultural change and a more transparent behavior of the equity market.

4. Colombia

- The **Board of Governors of the Central bank will meet** next Friday. According to surveys analyst are divided; one group expects the intervention rate will keep unchanged while the rest looks forward to **an increase of 25 bp**. We are expecting that the board will maintain its intervention rate taking into account the rose of inflation expectations and the slow pace of economic growth.

- The Government changed the Total **Public Sector deficit target** from 1,4% to **1.0% of the GDP** for this year, after announcing an expenditure cut of 1,5 billion pesos.

5. Mexico

- The monthly survey on commercial establishments, **fulfilled market expectations (3.5%)** on **May**, when it grew 3.4% annually (3.2% SA). The sectors with best performance were **motor vehicles** and **self-service** and **department stores**, they grew 4.0% and 6.5% respectively. On the other hand the sectors which under performed were, food, tobacco, and beverages which fell -3.7% (continuing its losing streak), and stationary products which fell -6.6%.

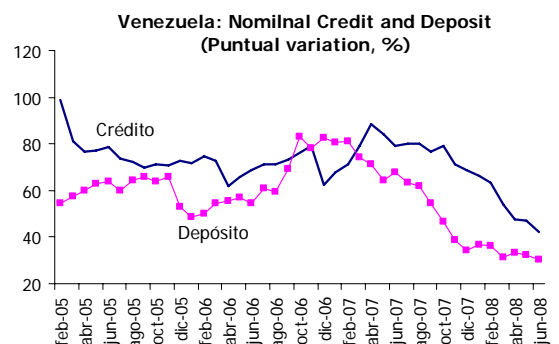
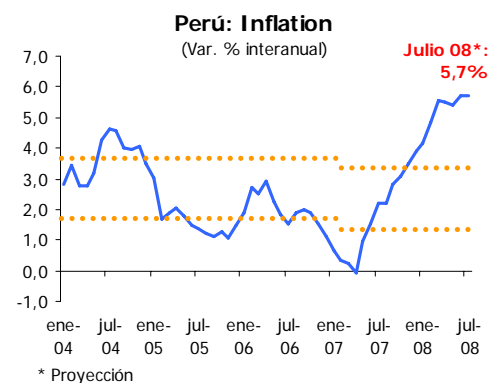
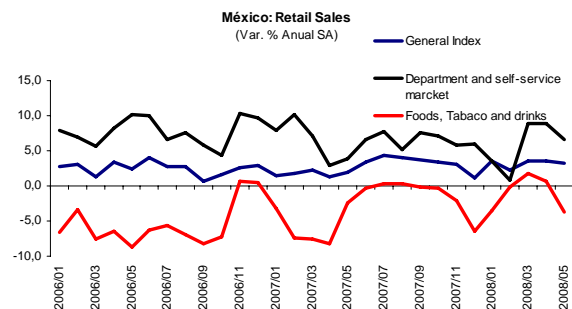
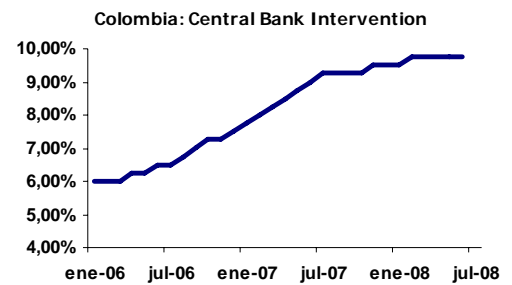
6. Peru

- July's **CPI inflation will be released** next August 1st. We are expecting a **0,5% mom increase** (around **5,7% yoy**).

- While the current inflation level primarily responds to increases in food and fuel prices, there is a growing concern that high domestic demand growth and rising inflation expectations might spur price increases in other goods and services. In this context, the inflation forecast for 2008 year-end has been revised upwards, from 4,9% to 5,6%.

7. Venezuela

- In June, **gross nominal credit grew at 2.6%**, and 42.3% yoy, according to official figures. The numbers confirm the strong deceleration in growth rates since 2007. Credit to firms, the main destination of resources with 65.2% of total, shows the first negative real growth in 52 months (-0.6%). The deceleration in deposit growth (30.4% yoy in June vs. 67.7% yoy 2007), suggests also constrains in the funding of credit. Our expectation at year end is a lower growth rate of 31,3%, in line with the strong deceleration trend that is being observed



The latest from markets

Debt and Money markets

Market	End	Weekly Var.	Yearly Var. Bp	Prev. Dec 2008
Argentina				
7 day Central Bank rate	9.00	0	75	---
Badlar rate	13.63	-181	563	16.00
Brasil				0.00
Official Rate	12.25	0	75	13.50
Andima 1 year bond	14.59	4	370	---
Chile				0.00
Official rate	7.25	0	200	8.00
Swap CLP	7.78	-4	253	---
10 year rate	3.35	-8	27	---
Colombia				0.00
Official Rate (BR)	9.75	0	50	9.75
DTF	9.63	-2	144	---
TES jul-2020	12.71	-29	293	---
México				0.00
Tipo oficial (Tasa de fondeo bancaria)	8.00	0.00	48	---
3 months rate	8.28	7	88	6.53
10 years rate	9.05	-10	137	6.90
Peru				0.00
Official Rate	6.00	0	125	6.50
10 year rate	7.62	6	151	---
Venezuela				0.00
Overnight (daily)	0.80	-1150	-910	9.67
CD 28d (official)	13.00	0	3	13.50
DPF 90d	17.17	-64	617	18.00

Currency Markets

Relative stability due to the dollar's strengthening. We emphasize the appreciation of Mexican Peso due to the increase of the expectations about a monetary politic more restrictive. Chile Peso fell due to the rise of the dollar's demand.

Exchange Rate	End	Weekly Var. %	Yearly Var. %	Prev. Dec 2008	
America					
Argentina (peso-dollar)		3.02	0.0	-3.8	3.10
Brazil (Real-dollar)		1.58	-0.4	-16.9	1.65
Colombia (Peso-dollar)		1772	0.7	-11.0	1920.08
Chile (Peso-dollar)		495	0.9	-5.5	485.00
México (Peso-dollar)		10.02	-2.1	-8.6	10.95
Peru (New sol-dollar)		2.84	0.2	-10.3	2.70
Venezuela (Bolívar-dollar)		2147	--	0.0	2.15
dollar-Euro		1.57	-1.2	13.9	1.48

Emerging Spreads

Against the background of a slight drop in volatility, we witnessed significant declines in Latin American differentials. Particularly for Argentina, where the drop follows the Senate decision on the agricultural export duties.

Spreads soberanos EMBI+	End	Weekly Var. Bp	Yearly Var. Bp
EMBI+	272	-16	90
EMBI + Latinoamérica	295	-11	91
Argentina	586	-51	231
Brazil	217	-11	48
Colombia	198	-15	59
Chile*	179	-6	94
México	166	-3	64
Peru	184	-10	51
Venezuela	603	-9	294
EMBI+ Asia	257	-43	88
EMBI+ Europe	234	-13	90

Commodity Markets

Commodity prices continue to decline. Oil prices declined to around US\$ 125 on Thursday morning, accumulating a US\$ 20 drop in the last two weeks. Oil price reductions continue to be supported by demand reductions in developed countries.

Commodities	End	Weekly Var. %	Yearly Var. %	Forecast Dec 2008
Brent (\$/b)	125.1	-4.5	66.4	103.7
Gold (\$/onza)	925	-3.4	39.5	875.0
Copper (c/lb)	376	-1.2	5.4	2.8
Soy (c/bush)	1401	-6.0	86.9	1331.0
Coffee (c/lb)	148	-2.2	20.3	146
Goldman-Sachs Index	554	-2.8	32.1	---
CRB Index	927	-0.6	43.2	---

Stock Markets

Significant falls in some Latin American markets, particularly in Peru due to the fall in the price of metals. The Mexican stock market was dragged by the collapse of shares in the telecommunications sector, while in Argentina, a buying rally in the service sector raised the Merval, after rumors about a possible rise in electricity tariffs.

Stock Exchange	End	Weekly Var. %	Yearly Var. %
The Americas			
Argentina (Merval)	1941	2.5	-9.9
Brazil (Bovespa)	59421	-1.1	10.3
Colombia (Ind. General)	8802	0.1	-20.4
Chile (IGPA)	13977	3.3	-4.5
México (IPC)	27645	-2.0	-7.8
Peru (General Lima)	13480	-5.1	-42.0
Venezuela (IBC)	39062	0.5	-7.0
USA			
S&P 500	1282	1.7	-13.5
Nasdaq 100	2326	0.6	-10.5
Europe			
Londres (FTSE)	5400	2.1	-13.6
EuroStoxx50	2875	3.1	-23.0
Ibex35	11788	1.3	-18.9
Estambul-100	38583	2.4	-26.5
Asia			
Nikkei	13603	5.6	-23.2
China	2910	8.4	-33.0

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

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Day	Country	indicator	Period	Last	Mkt	Comments
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					Forecast	
Monday	Argentina	Survey of Shopping Centers	June	28,8% a/a		
	Argentina	Ind. Synthetic Construction	June	4,2% a/a		
Tuesday	Mexico	IGAE	May	0,062	1,5	1,6
Wednesday	Brasil	Primary fiscal balance	June	R\$13.2		
	Argentina	Supermarkets Survey	June	44,7% a/a		
	Mexico	Quarterly Inflation Report	2Q08	N.A.	N.A.	N.A.
	Mexico	Quarterly Public Finance Report				
Thursday	Brasil	Monetary Policy Committee	July			
	Chile	Industrial Production	June	-0,024		
	Chile	Mining Production	June	-0,061		
	Chile	Employment	June	0,024		
	Chile	Unemployment	June	0,08		
	Colombia	Unemployment rate	June	0,118	0,12	0,114
	Argentina	Public Services Statistics	June	10,1% a/a		
Friday	Brasil	Industrial Activity	June	2.4%		
	Colombia	CPI (YoY)	July	0,0718	0,0749	0,0768
	Peru	Inflation	July	0,77% m/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	9,3	jun	8,4	1 T 08	6,9	may	44,7	may	27,9	may	1005	may
Brazil	5,8	6,2	5,6	5,4	6,1	jun	7,9	may	3,6	may	10,5	may	41,7	jun	2719	jun
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	-4,9	may	-0,4	may	34,3	apr	506	apr
Mexico	2,6	4,2	3,4	2,6	5,3	1QJun	3,2	may	-1,2	may	7,3	apr	9,0	may	-61	may
Peru	9,3	9,7	8,9	8,5	5,7	jun	7,9	may	4,6	may	n.d.	0,0	25,9	apr	400	may
Venezuela	4,8	8,5	8,7	7,8	32,2	Jun	7,6	Jun	10,6	abril	60,21	abr	59,4	mar	11105	mar

Sources: Bloomberg, Reuter, and BBVA staff estimates.