



Weekly Observatory

August 8th, 2008

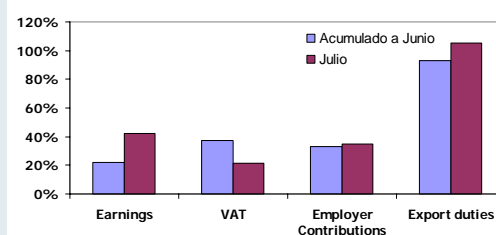
Weekly Highlights (August 1th – August 8st, 2008)

In Chile, inflation rate hike surprise again, it is expected an increase in rates by the Chilean Central Bank of 25bp for the meeting on Thursday, without ruling out a hike of 50bp. In Colombia also recorded inflationary pressures, coupled with a slowdown in production. Mexico registered the lowest confidence index since April 2001. Peru continues to show GDP growth favourable, but it is expected to moderate for the second half. In Argentina emphasizes the rise of country risk, compared to the relative stability of other countries.

1. Argentina

- In July, **tax revenues** rose substantially, 40.3 % y/y, above the average for the first 7 months of 2008. Growth was led by Income tax, Social Security collections and Export duties.
- VAT increased only 21.7% y/y in July, a significant slow down compared to the first half of 2008 when it was rising by almost 38%. On the other hand, export duties (+105% y/y) recovered after the end of the conflict with the farming sector which had caused a negative impact on June collections.
- The slow **peso** depreciation trend continued this week with the exchange rate increasing by almost 3 cents over last week's average.

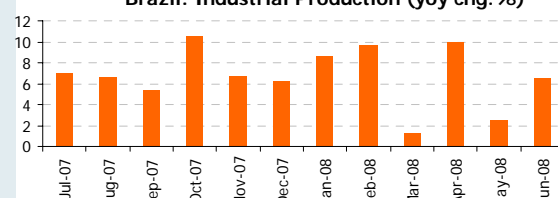
Argentina: Tax Collection



2. Brazil

- Industrial production** rose 6.6% (yoy) in **june**. Industrial activity has accelerated due to the strength of domestic demand, which favors a greater investment effort by local firms.
- Prior to the publication of IPCA inflation data for July, to be released on Friday, inflation expectations for 2008 have fallen for the first time in 19 weeks. The last survey registered a central forecast of 6.54% for year-end, down from 6.58% last week.

Brazil: Industrial Production (yoy chg.%)

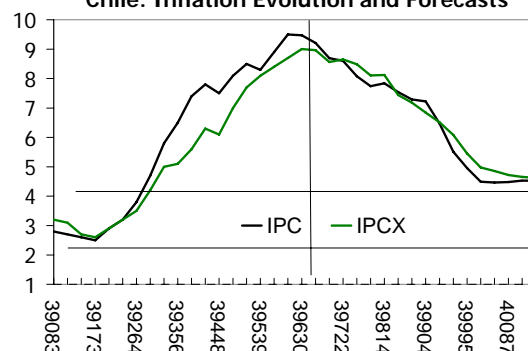


Source: Bloomberg

3. Chile

- Inflation in July** surprised again to the upside showing a monthly variation of 1.1%, accumulating an increase of 9.5% in twelve months. The IMACEC (Monthly Indicator of Economic Activity) in June exhibited a 5% growth rate, exceeding expectations and in accordance with our 4.3% growth forecast for 2008.

Chile: Inflation Evolution and Forecasts



- **The Central Bank will keep raising interest rates:** we expect a 25 bps increase at the next Monetary Policy meeting on Thursday August 14th, although we do not discard a 50 bps hike. This would add to the 100 bps increase implemented over the last two months.

4. Colombia

- Fedesarrollo and ANDI's survey shows a further downward trend in industrial production and confidence for June.
- Colombia's inflation rate rose 0,48% (MoM) in July, in comparison to the 0,17% in the same month of 2007. Annual inflation quickened to 7.52 % (YoY), this result was driven by perishables food goods, fuels and utility bills.
- The IPP grew 1,02% in July which confirms higher cost pressures for the economy.

5. Mexico

- The Consumer Confidence Index reached its all time low in July (since April 2001) at 89.6 points. The sub indexes that stood out were, the negative perception on the possibility of buying a durable good compared to a year ago, which could signal lower growth on the durable good component. It was also a highlight, the pessimism on the economic condition of the surveyed, their families and the country in the short term. The Consumer Confidence Index tends to anticipate the activity expansion rate, and it's a timely indicator to keep an eye on.

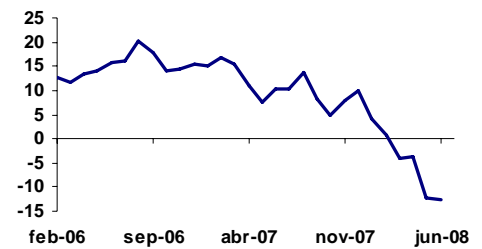
6. Peru

- **GDP:** We expect economic activity in June to have grown between 12,2% and 12,6%. If this result is confirmed, GDP's growth rate in the first half of 2008 would be 10,2%, higher than the 9,4% increase observed in the second half of 2007. According to this, there are no clear signs of a gradual slowdown. Nonetheless, it would be difficult for the economy to continue growing at this pace in the second half of 2008, mainly because of a less favorable external environment and the tightening of monetary policy.

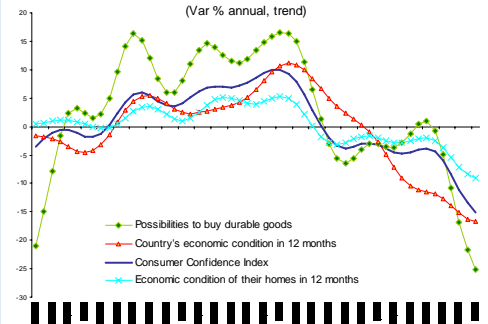
7. Venezuela

- After been bestowed by the Venezuelan Assembly eighteen months ago, President Chavez decreed 26 laws by applying special legislative powers. Although the banking system law also was modified, changes were relative minor. Namely, it speeds up the process by which the government overtakes assets of insolvent banks. The agricultural law authorizes to the President to force banks to allocate a minimum to 30% of total credit to agriculture. Other modifications focus on easing the government takeovers in the food sector, creating national militias, a new military branch, and allowing the president to name regional political officials who would have separate budgets. Given an enactment process that lacked transparency and the inclusion of measures rejected during the 2007 referendum, social tensions could be expected social tensions.

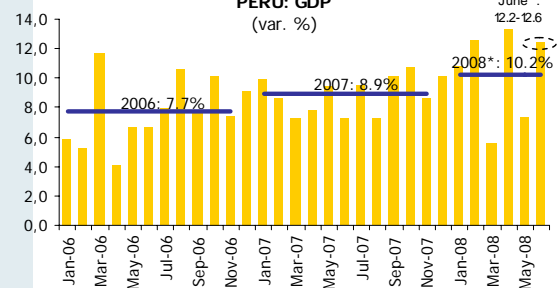
Colombia: Industrial Confidence Index



Consumer Index Confidence
(Var % annual, trend)



PERU: GDP
(var. %)



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	12,44	0	237,50	16,00
Brasil				0,00
Official Rate	13,00	0	150	13,50
Andima 1 year bond	14,56	-12	347	---
Chile				0,00
Official rate	7,25	0	200	8,00
Swap CLP	8,03	18	253	---
10 year rate	3,31	2	7	---
Colombia				0,00
Official Rate (BR)	9,75	0	50	9,90
DTF	9,73	12	150	---
TES jul-2020	12,41	-30	248	---
México				0,00
Tipo oficial (Tasa de fondeo bancaria)	7,99	0,00	72	---
3 months rate	8,38	4	100	6,53
10 years rate	8,78	-18	99	6,90
Peru				0,00
Official Rate	6,00	0	125	6,50
10 year rate	7,68	1	124	---
Venezuela				0,00
Overnight (daily)	4,90	410	-286	9,67
CD 28d (official)	13,00	0	3	13,50
DPF 90d	17,48	40	647	18,00

Currency Markets

Stability of the major Latin American currencies stressing the new appreciation of the dollar against the euro by good macroeconomic data in the U.S. and weakness in oil prices.

Exchange Rate	End	Weekly Var. %	Yearly Var. %	Prev. Dec 2008
America				
Argentina (peso-dollar)	3,05	0,3	-3,3	3,10
Brazil (Real-dollar)	1,60	2,4	-17,8	1,65
Colombia (Peso-dollar)	1780	0,2	-11,1	1920,08
Chile (Peso-dollar)	511	0,9	-2,0	470,00
México (Peso-dollar)	10,02	0,6	-9,0	10,95
Peru (New sol-dollar)	2,81	0,1	-10,8	2,20
Venezuela (Bolívar-dollar)	2147	--	0,0	2,15
dollar-Euro	1,52	-2,2	11,3	1,48

Emerging Spreads

The emerging spreads increased this week with the exception of Mexico. The biggest increase takes place in Argentina caused probably by the fall in price of agricultural raw materials.

Spreads soberanos EMBI+	End	Weekly Var. Bp	Yearly Var. Bp
EMBI+	290	3	78
EMBI + Latinoamérica	317	3	82
Argentina	684	59	225
Brazil	229	1	35
Colombia	216	4	43
Chile*	177	1	71
México	163	-8	44
Peru	188	6	29
Venezuela	662	5	297
EMBI+ Asia	274	4	64
EMBI+ Europe	242	1	77

Commodity Markets

Brent prices are below the US\$ 120 mark for the first time since May. Prices receded around 20% since they peaked in the middle of July. US oil markets continue to provide support for price declines. Oil prices remain highly correlated with the dollar which has strengthened since middle of July.

Commodities	End	Weekly Var. %	Yearly Var. %	Forecast Dec 2008
Brent (\$/b)	117,5	-5,3	67,0	103,7
Gold (\$/onza)	868	-4,7	29,0	875,0
Copper (c/lb)	354	-3,3	2,9	2,8
Soy (c/bush)	1196	-10,9	50,0	1331,0
Coffee (c/lb)	150	2,9	19,1	146
Goldman-Sachs Index	523	-4,4	24,6	---
CRB Index	857	-3,7	33,5	---

Stock Markets

Falls widespread in Latin American stock markets, especially Brazil and Peru. The investment climate suffers because of a weakened demand and a global economy in decline.

Stock Exchange	End	Weekly Var. %	Yearly Var. %
The Americas			
Argentina (Merval)	1816	-3,6	-11,6
Brazil (Bovespa)	57018	-1,1	8,3
Colombia (Ind. General)	8889	-2,2	-17,3
Chile (IGPA)	14199	-0,5	-0,9
México (IPC)	26987	0,1	-8,3
Peru (General Lima)	13242	-4,2	-40,4
Venezuela (IBC)	39490	-0,7	-3,4
USA			
S&P 500	1266	0,5	-12,9
Nasdaq 100	2356	1,9	-7,4
Europe			
Londres (FTSE)	5478	2,3	-9,3
EuroStoxx50	2912	2,1	-19,8
Ibex35	11718	1,3	-18,9
Estambul-100	41424	-3,6	-15,8
Asia			
Nikkei	13168	0,6	-21,4
China	2633	-6,0	-44,6

The week ahead

Monday	Argentina	Consumer Price Index	July	0.6%		0.6%
	México	Revised Trade Balance	June	273,4M\$	273M\$	(-)113M\$
	Chile	Foreign Trade	July			
Tuesday	México	Fixed Assets Investment indicators	may	12.9%	6.2%	4.4%
Wednesday	Venezuela	Industrial Production Index	may	April: 19.87% puntual		
Thursday	Venezuela	Salary	2Q08	21.9% puntual		Baja
	Chile	Monetary Policy Meeting	August	7.25%		7.5%
	Brazil	retail sales	june	10.3%	10.5%	
Friday	Venezuela	GDP	2Q08	0.048		Forecasts hike 4.9%
	Venezuela	Balance of Payments	2Q08	USD -3.849		Lower deficit BP
	Argentina	Monthly economic activity estimated	June	0.08		0.063
	Argentina	Terms of Exchange	2Q08	0.182		0.274
	Colombia	Industrial Production	June	-0.0429		
	Colombia	Retail sales	June	-0.004		
	Colombia	Monetary Policy Meeting	June	0.1	0.1	0.1
	Perú	Trade Balance	June	435 mill. US\$		
	Perú	GDP	June	7.3%		12.2% - 12.6%
	Perú	Unemployment rate	July	7.9%		0
	México	Monetary Policy	August	0.08	0.0813	0.0825

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	June	8,4	1Q08	1,6	Jun	32,5	Jun	20,7	Jun	308	Jun
Brazil	5,8	6,2	5,6	5,4	6,1	June	7,8	jun	3,6	may	10,5	May	41,7	jun	2719	Jun
Chile	3,0	4,0	3,9	6,2	9,5	June	8,4	Jun	-0,9	Jun	-1,5	Jun	15,4	Jun	16511,0	Jun
Colombia	4,1	8,4	6,9	8,4	7,5	July	11,7	Jun	-4,9	may	-0,4	may	25,7	May	748	May
Mexico	2,6	4,2	3,4	2,6	5,3	1QJun	3,2	may	-1,2	May	3,4	May	9,0	may	-61	may
Peru	9,5	9,8	9,0	8,1	5,7	Jun	7,4	Jun	4,6	May	n.d.		35,4	may	400	may
Venezuela	4,8	8,5	8,7	7,8	32,2	June	7,6	Jun	19,9	Apr	60,2	Apr	59,4	March	11105	March

Sources: Bloomberg, Reuter, and BBVA staff estimates.