



Weekly Observatory

August 22th, 2008

Weekly Highlights (August 18th – August 22nd, 2008)

Surprisingly positive indicators of activity in the region, except for Mexico. In Argentina July's monthly industrial estimator showed a strong recovery. Brazil has also surprised by the increase of industrial production in June. It is expected that Chile's economic activity data for July will be positive. In Colombia an increase in energy demand has been recorded in July as well as a surplus in the trade balance. Moody's improves its risk rating for Peru. . Venezuela surprised with a growth rate of 7.1% in the second quarter from 4.9% over the previous quarter. In Mexico, industrial output was below expectations but a slight recovery is expected

1. Argentina

- In line with expectations, after the end of the transport and farmers' strike the **Monthly Industrial Estimator (EMI)** showed an important hike over the poor levels recorded in the previous month. Manufacturing activity increased 4.3% m/m in seasonally adjusted terms in July and 9.2% y/y. In fact, it has been negatively affected by energy shortages due to unusually cold weather.
- The most dynamic sectors were basic metal industries (+47.8% y/y), including steel and aluminum, automobiles (+41% y/y), agrochemicals (30.9% y/y) and cereal and oilseed mills (20.5%).

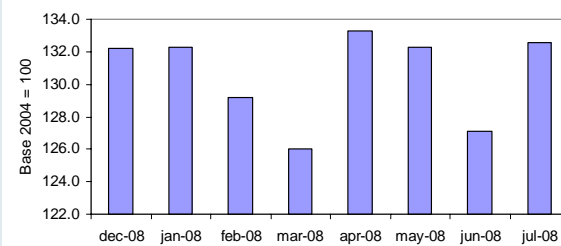
2. Brazil

- Lula has announced the creation of a public company holding the 100% control of the newly discovered oil fields. Industrial production in June has registered an increase of 6.2%.
- On the other hand, tax revenues (including taxes and social security contributions) in July have reached 61,960 billion reais, an increase of 22.9% over the previous year and a monthly increase of 11.1%. The unemployment rate in July reached a 8.1% versus 7.8% in June. The current account balance of July moderated in 2111 billions USD. While foreign investment reached in July 3240 billions USD compared to 2718 billions of dollars of June.

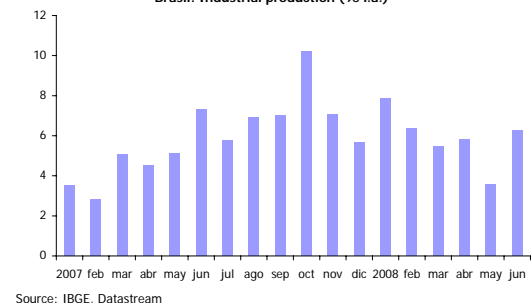
3. Chile

- **We expect activity data for the month for July to surprise to the upside.** We expect industrial production to show an increase of 3,8%, while mining could have grown by as much as 3% yoy. The unemployment rate will keep increasing due to seasonal factors and will get to 8,5%. Nonetheless, waged employment will remain strong at 5,2% a/a due to strong dynamics of non tradable goods sectors.
- **The Central Bank will publish National Accounts data for the second quarter of the year.** The low GDP growth rate will be explained by a strong negative contribution from external demand.

Argentina: Industrial monthly estimates (seasonally adjusted series)

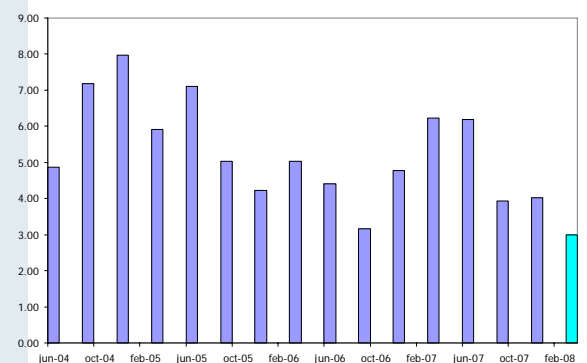


Brazil: Industrial production (% i.a.)



Source: IBGE, Datastream

Chile: Gross domestic product (Percentage of quarterly growth)



4. Colombia

- **Industrial production and real retail sales grew** -6,55% and 0.75% yoy during June. This result confirms Colombia's slower pace of growth for 2008.
- Between January and June the **trade balance showed a surplus** of US\$ 1315 millions vs the deficit of US\$ 956 millions during the same period of 2007. This result is mainly driven by high terms of trade.
- During July the **energy demand grew** 2.8% y/y which represents a rate of 1,7% between January and July of 2008.

5. Mexico

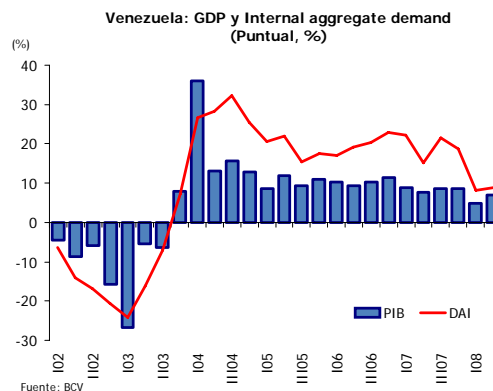
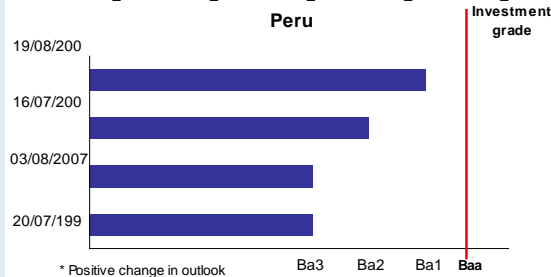
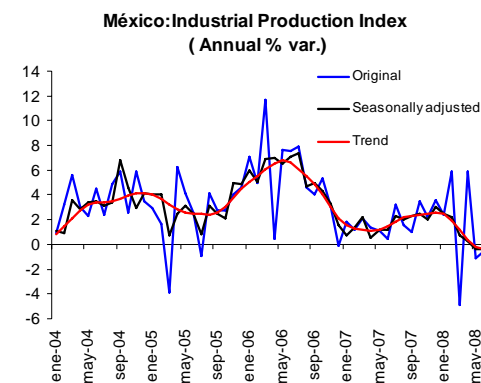
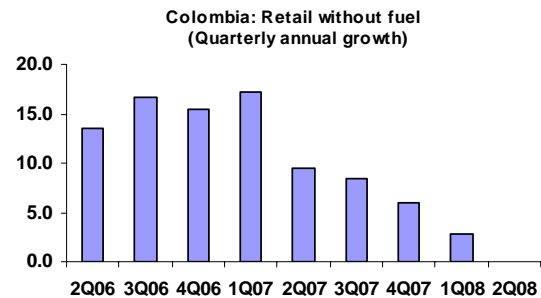
- Below market consensus (0.2% Bloomberg) **Industrial production** fell by (-) 0.5% in **June**. Including this result, the annual variation has been negative in four of the last five months. The monthly variation was 0.3% in June, which shows a slight recovery against the previous month. In the next months slow growth in the industrial components should be expected. We estimate the biggest adjustments to happen in the second and third quarters. We keep our GDP growth estimate for 2008 in 2.3%.

6. Peru

- **Sovereign credit rating upgrade.** Moody's upgraded the foreign-currency bond rating of the Peruvian government on August 19, from Ba2 to Ba1, locating it one step away from investment grade (already given by Fitch and S&P). This was prompted by the strengthening of fiscal and local bank's balance sheets, with declining dollarization, so that foreign exchange-credit risk has reduced. The agency noted, nonetheless, that there still are some vulnerabilities which include: i) a still high financial dollarization; ii) exports vulnerability to commodities' price reductions; and iii) still significant poverty which represents a political risk.

7. Venezuela

- **GDP** grew 7.1% during the second quarter of the year. Taking into account the sign of deceleration shown in the first quarter (4.9%), this figure was unexpectedly high. Aggregate domestic demand (8,9%) continues growing faster than GDP, although the gap is being reduced. This is driven by lower private consumption (9.9%) and investment (3.7%) than in previous years. Non trade sectors have given a boost to the economy, specially, telecommunications (24,6%) and construction (11.7%).
- **The Balance of Payments** ends second the quarter with an overall surplus of USD 2,923 MM. Current Account displayed a positive result of USD 16,830 MM due to a relevant export y/y increase 76,2%



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 | 12.31 | 62.50 | 400.00 | 16.00 |
| Brasil | | | | 0.00 |
| Official Rate | 13.00 | 0 | 150 | 13.50 |
| Andima 1 year bond | 14.66 | 3 | 301 | --- |
| Chile | | | | 0.00 |
| Official rate | 7.75 | 50 | 225 | 8.00 |
| Swap CLP | 8.41 | 20 | 291 | --- |
| 10 year rate | 3.41 | -2 | 47 | --- |
| Colombia | | | | 0.00 |
| Official Rate (BR) | 9.75 | 0 | 50 | 9.90 |
| DTF | 9.81 | -8 | 137 | --- |
| TES jul-2020 | 11.79 | -14 | 115 | --- |
| México | | | | 0.00 |
| Tipo oficial (Tasa de fondeo bancaria) | 8.25 | 0.00 | 100 | 8.25 |
| 3 months rate | 8.33 | -1 | 94 | 8.30 |
| 10 years rate | 8.55 | -18 | 72 | 8.75 |
| Peru | | | | 0.00 |
| Official Rate | 6.25 | 0 | 150 | 6.50 |
| 10 year rate | 7.83 | 11 | 147 | --- |
| Venezuela | | | | 0.00 |
| Overnight (daily) | 4.40 | -1410 | -350 | 9.67 |
| CD 28d (official) | 13.00 | 0 | 3 | 13.50 |
| DPF 90d | 17.39 | -26 | 620 | 18.00 |

Currency Markets

The price of U.S. dollar continues to appreciate. As far as the euro continues to lose ground to the dollar due to weak economic data in the euro zone. The dollar depreciated respect to the majority of Latin American currencies (except the Chilean peso), after a correction in the dollar supported in a shift of sentiment in their favor.

| Exchange Rate | End | Weekly Var. % | Yearly Var. % | Prev. Dec 2008 | |
|----------------------------|-----|---------------|---------------|----------------|---------|
| America | | | | | |
| Argentina (peso-dollar) | | 3.02 | -0.2 | -4.6 | 3.10 |
| Brazil (Real-dollar) | | 1.61 | -1.6 | -17.7 | 1.65 |
| Colombia (Peso-dollar) | | 1862 | -0.9 | -12.0 | 1920.08 |
| Chile (Peso-dollar) | | 519 | 0.8 | -0.8 | 470.00 |
| México (Peso-dollar) | | 10.09 | -0.9 | -8.5 | 10.95 |
| Peru (New sol-dollar) | | 2.91 | -1.3 | -8.1 | 2.70 |
| Venezuela (Bolívar-dollar) | | 2147 | -- | 0.0 | 2.15 |
| dollar-Euro | | 1.49 | 1.4 | 8.9 | 1.48 |

Emerging Spreads

New week with increasing differentials with the exception of Venezuela.

| Spreads soberanos EMBI+ | End | Weekly Var. Bp | Yearly Var. Bp |
|----------------------------|-----|-------------------|-------------------|
| EMBI+ | 303 | 4 | 59 |
| EMBI + Latinoamérica | 330 | 3 | 58 |
| Argentina | 681 | 17 | 192 |
| Brazil | 241 | 2 | 24 |
| Colombia | 228 | 4 | 26 |
| Chile* | 169 | 0 | 59 |
| México | 184 | 4 | 44 |
| Peru | 202 | 2 | 14 |
| Venezuela | 656 | -10 | 175 |
| EMBI+ Asia | 286 | 7 | 49 |
| EMBI+ Europe | 258 | 4 | 64 |

Commodity Markets

Oil prices rose stimulated by increasing tensions between US and Russia. A bigger than expected decline in US gasoline stocks also stimulated prices, although crude inventories expanded more than forecasted. Grains and metals prices displayed significant upward movements this week.

| Commodities | End | Weekly Var. % | Yearly Var. % | Forecast Dec 2008 |
|---------------------|-------|---------------|---------------|----------------------|
| Brent (\$/b) | 120.7 | 7.3 | 71.0 | 103.7 |
| Gold (\$/onza) | 837 | 6.3 | 25.3 | 875.0 |
| Copper (c/lb) | 362 | 7.2 | 7.7 | 2.8 |
| Soy (c/bush) | 1275 | 7.1 | 65.3 | 1331.0 |
| Coffee (c/lb) | 149 | 0.1 | 19.7 | 146 |
| Goldman-Sachs Index | 510 | 2.3 | 26.7 | --- |
| CRB Index | 715 | 3.5 | 21.7 | --- |

Stock Markets

The Latin American stock markets registered gains throughout this week except for the Mexican, Venezuelan and Chilean.

| Stock Exchange | End | Weekly Var. % | Yearly Var. % |
|-------------------------|-------|---------------|---------------|
| The Americas | | | |
| Argentina (Merval) | 1746 | 0.7 | -16.1 |
| Brazil (Bovespa) | 55935 | 3.1 | 5.5 |
| Colombia (Ind. General) | 9042 | 1.1 | -15.8 |
| Chile (IGPA) | 13492 | -2.5 | -7.0 |
| México (IPC) | 26535 | -2.9 | -11.7 |
| Peru (General Lima) | 12654 | 8.0 | -39.9 |
| Venezuela (IBC) | 39901 | -0.1 | -1.9 |
| USA | | | |
| S&P 500 | 1278 | -1.6 | -13.6 |
| Nasdaq 100 | 2380 | -2.9 | -7.6 |
| Europe | | | |
| Londres (FTSE) | 5370 | -1.6 | -13.7 |
| EuroStoxx50 | 2819 | -3.0 | -24.2 |
| Ibex35 | 11217 | -4.0 | -21.7 |
| Estambul-100 | 39923 | -5.4 | -14.7 |
| Asia | | | |
| Nikkei | 12666 | -2.7 | -22.1 |
| China | 2405 | -1.9 | -52.9 |

The week ahead

| Day | Country | indicator | Period | Last | Mkt Forecast | Comments |
|-----------|-----------|-----------------------------|--------|-------------------------------------|--------------|----------|
| Lunes | Argentina | Trade balance | July | M\$ 308 | | M \$ 926 |
| | México | Balance of payments | IIQ08 | -1485M\$ | -903M\$ | -608M\$ |
| | | Commercial activity | Jun | 0.03 | 0.026 | 0.02 |
| | Brasil | Consumer confidence | Aug | | | |
| | Chile | GDP | 2° Q | 0.03 | | 0.04 |
| Martes | Argentina | Commercial Center Survey | July | 25,0% a/a | | |
| | Venezuela | Credit and Deposits | July | June: Credit 2.6 %; Deposit 4.8% | | |
| | | | July | | | |
| Miércoles | Argentina | Supermarkets Survey | July | 33,7% yoy | | |
| | Brasil | Net debt as % of GDP | July | | | |
| | | Primary fiscal balance | July | | | 4,4% GDP |
| Jueves | Argentina | Construction activity | July | -6,4% yoy | | |
| | Chile | Industrial production | July | -0.9% | | 3.8% |
| | Chile | Industrial sales | July | -0.02 | | 0.01 |
| | Chile | Mining production | July | -0.01 | | 0.03 |
| | Chile | Unemployment rate | July | 8.40% | | 0.09 |
| Viernes | Argentina | Public services statistics | July | 0.09 | | |
| | Colombia | Unemployment rate | July | 0.12 | | |
| | | Monetary policy meeting | Aug | | | |
| | México | IGAE | July | 0.01 | 0.018 | 0.02 |
| | Perú | Central Government activity | July | 1,2 mM S/. | | |
| | | Balance of payments | 2Q08 | | | |

Macroeconomic Indicators

| | GDP (yoy) | | | | | Inflation | | Unemployment | | Industrial Prod. | | Sales | | Exports | | Trade Balance | |
|-----------|-----------|-------|-------|-------|-------|-----------|------|-----------------|------|------------------|-----|-------|-----|-------------|-------|---------------|-------|
| | 2Q 08 | 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 | June | 8.4 | 1Q08 | 9.2 | jul | 32.5 | Jun | 20.7 | jun | 308 | jun |
| Brazil | - | 5.8 | 6.2 | 5.6 | 5.4 | 6.4 | June | 8.1 | jul | 5.5 | jun | 8.2 | May | 44.9 | jul | 3304 | jul |
| Chile | - | 3.0 | 4.0 | 3.9 | 6.2 | 9.5 | July | 8.4 | jun | -0.9 | jun | -1.5 | abr | 15.4 | jun | 16511.0 | jun |
| Colombia | - | 4.1 | 8.4 | 6.9 | 8.4 | 7.5 | July | 11.7 | jun | -4.9 | may | -0.7 | jun | 75.0 | May | 567,3 | May |
| Mexico | - | 2.6 | 4.2 | 3.4 | 2.6 | 5.4 | July | 3.6 | Jun | -1,2 | May | 3,4 | May | 9,0 | Jun | -61 | jun |
| Peru | 10.9 | 9.7 | 9.8 | 8.8 | 8.6 | 5.8 | July | 8.1 | Jun | 4.6 | May | n.d. | | 35,4 | may | 400 | may |
| Venezuela | 7.1 | 4.9 | 8.5 | 8.6 | 7.8 | 33.7 | July | 7.2 | jun | -1.4 | may | 43.52 | May | 76.18311534 | March | 18597 | March |

Sources: Bloomberg, Reuter, and BBVA staff estimates.