



# 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%).

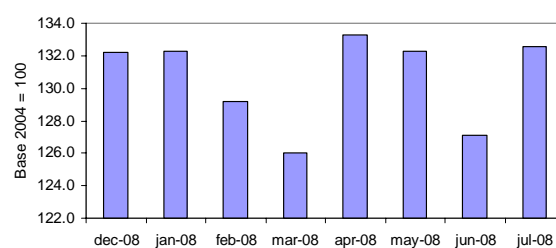
### 2. Brazil

- 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.

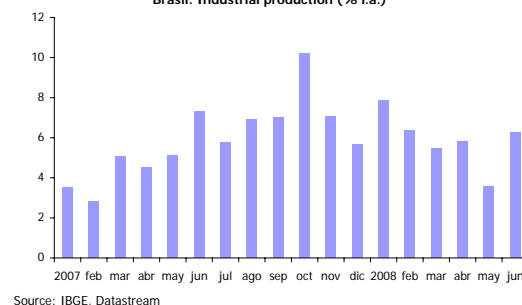
### 3. Chile

- **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.

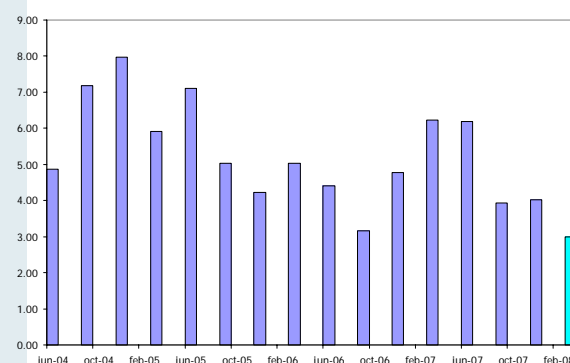
Argentina: Industrial monthly estimates (seasonally adjusted series)



Brazil: Industrial production (% i.a.)



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%.

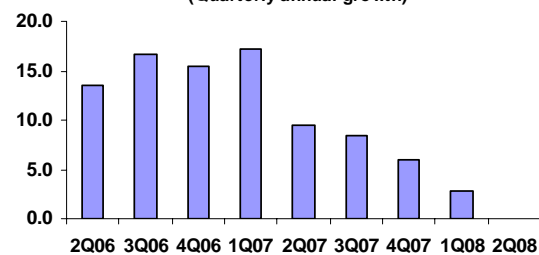
#### 6. Peru

- **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.

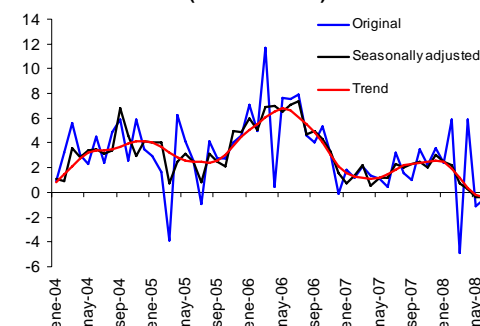
#### 7. Venezuela

- **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%

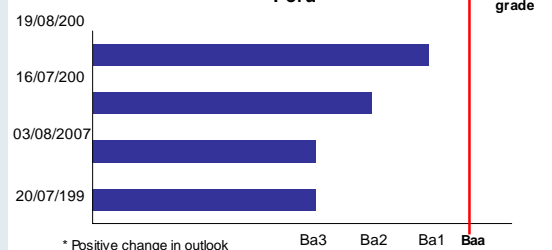
Colombia: Retail without fuel  
(Quarterly annual growth)



México: Industrial Production Index  
(Annual % var.)

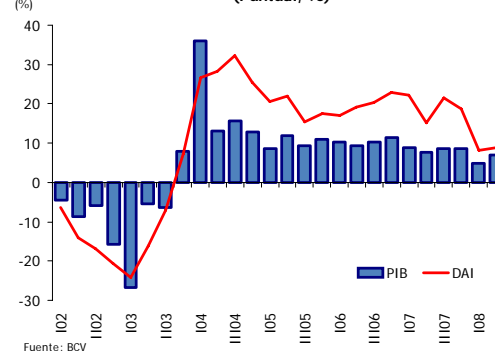


Peru



\* Positive change in outlook

Venezuela: GDP y Internal aggregate demand  
(Puntual, %)



Fuente: BCV

## The latest from markets

## Debt and Money markets

Market	End	Weekly Var.	Yearly Var. Bp	Prev. Dec 2008
<b>Argentina</b>				
7 day Central Bank rate	9.00	0	75	---
Badlar rate	12.31	62.50	400.00	16.00
<b>Brasil</b>				0.00
Official Rate	13.00	0	150	13.50
Andima 1 year bond	14.66	3	301	---
<b>Chile</b>				0.00
Official rate	7.75	50	225	8.00
Swap CLP	8.41	20	291	---
10 year rate	3.41	-2	47	---
<b>Colombia</b>				0.00
Official Rate (BR)	9.75	0	50	9.90
DTF	9.81	-8	137	---
TES jul-2020	11.79	-14	115	---
<b>México</b>				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
<b>Peru</b>				0.00
Official Rate	6.25	0	150	6.50
10 year rate	7.83	11	147	---
<b>Venezuela</b>				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
<b>America</b>				
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. %
<b>The Americas</b>			
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
<b>USA</b>			
S&P 500	1278	-1.6	-13.6
Nasdaq 100	2380	-2.9	-7.6
<b>Europe</b>			
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
<b>Asia</b>			
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.