



Weekly Observatory

August 29th, 2008

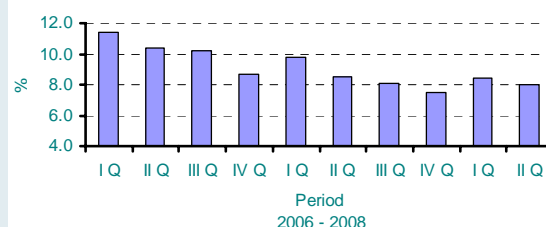
Weekly Highlights (August 22th – August 29th, 2008)

Good news on the fiscal side in Brazil and Argentina, the latter thanks to the good performance of revenues, highly dependent on export prices. The credit data for Brazil and Venezuela show signs of slowdown especially in the latter. In Mexico, the balance of payments of 2Q08 has reached a deficit of 0.6 as per cent of GDP, however, it is still low and easily financed specially due to positive FDI inflows. Country risk in the region increased marginally and the currencies recorded slight depreciation against the dollar, especially in Colombia and Mexico.

1. Argentina

- Although labor demand grew at a slower pace, the reduction in the labor force participation rate resulted in a new fall in **unemployment to 8% in the second quarter of 2008**.
- In July, the **Public Sector's primary surplus was 4.002 million Argentine pesos, accumulating 24.332 million pesos in the first seven month of 2008** (an increase of 44% y/y). The improvement in the fiscal results was a consequence of the positive performance of revenues (which are heavily dependent on commodity export prices), which continued to increase at a stronger pace than primary spending despite the growing burden of energy and transport subsidies on government expenditures.

Argentina: Unemployment rate



2. Brazil

- Credit as a proportion of GDP in July reached 37% over the previous month record (36.6%)**. The nominal volume of credit grew 1.7% related to June, the lowest rate since February, suggesting moderation, which it is associated with the recent increases of interest rate by the Central Bank of Brazil.
- The net public sector debt in July was 40.6% over the previous month record (40.4%) and the market forecast (40.2%)**. The primary surplus accumulated from January to July was 4.2% of GDP, exceeding the target of 3.8%.

Brasil: Credit / GDP

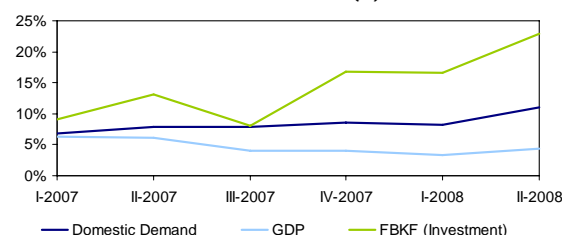


Source: IPEADATA

3. Chile

- Economic growth for the second quarter was 4.3% yoy. Domestic demand** shows an increase of 8.7% yoy surpassing expectations, mostly led by the strong growth of investment that increased 17.4% yoy. The gap between GDP and domestic demand increased, reflecting the fact that for the first time since 2005 the current account shows a negative balance in the quarter. We project a growth rate of 5.0% for in the month of July.
- Since we expect August inflation to remain high, the **Central Bank will have to raise interest rates by 50 bps** on Thursday September 4th.
- This quarter the unemployment rate stayed at 8.4%** and payroll employment showed an increase of 5.6% confirming the strength of sectors related to domestic demand.

Chile: real annual var. (%)



4. Colombia

- The financial system tapped local markets with bonds for COP 1,3 MM (US 687.1 millions). The bid/cover ratio was 2,54.
- Last week government debt bonds (TES) matured for US\$ 3500 millions. In order to prevent a liquidity overload, the Central Bank auctioned “bidding remunerated deposits” for COP 1,63 billions (US\$ 871,7 millions).

5. Mexico

- Mexican public Balance surprised negatively in the second quarter reporting (-) 2,018mmd (vs. expected (-) 750mmd), after reporting a first quarter balance of (-) 1485mmd. Despite the negative surprise, it remains low and without economic pressures (0.6% of GDP). Within the current account we highlight the relatively positive evolution of the merchandise balance and the deficit on the factorial services balance. Transfers remain stable and unchanged, though their flow continues to be very important. Direct foreign investment had one of its best quarters in recent years reporting 6405mmd.

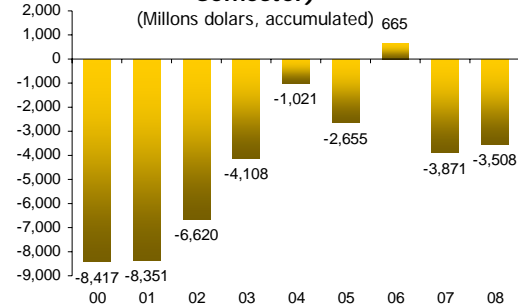
6. Peru

- Inflation. On September 1, CPI inflation for August will be released. We expect inflation to have increased by 0,6%-0,7% mom, thus accelerating in yoy terms from 5,8% in July to 6,3% in August. This high inflation is mainly explained by the following factors: i) recent declines in soft commodities prices have not had a similar effect on domestic food prices; ii) domestically produced food prices have not been reducing as expected; and iii) fuel prices have increased due to modifications in the public-funded oil stabilization fund.

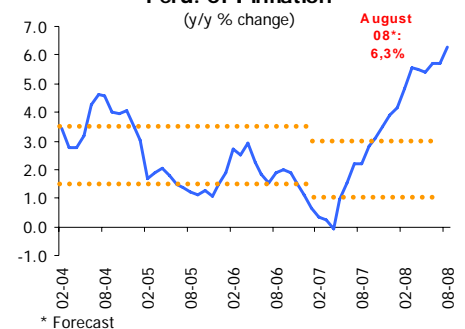
7. Venezuela

- In June, credit grew at 0.7% with a yoy rate of growth of 39.6%. This variation confirms the moderating trend of the last 15 months and, decouples from the GDP's 7.1% result in the second quarter. Rises in interest costs and lower firms demand help to explain this contraction. The lending interest rate increased 742 bp and consumer credit interest rate raised 633 bp in ten months. Total deposits displayed a 1.4% growth rate on a y/y basis, 10.4% in real terms.

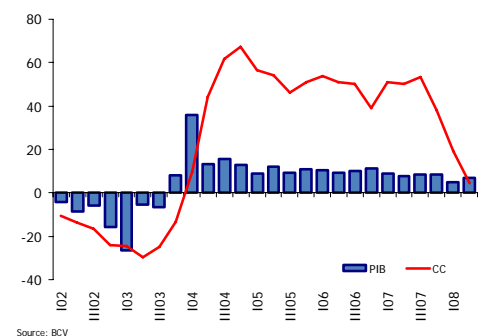
Mexico: Current Account (Second Semester)



Peru: CPI inflation



Venezuela: GDP y Gross Credit (Constant prices, puntual variation %)



Source: BCV

The latest from markets

Bond and Money markets

Market	End	Weekly Var.	Yearly Bp	Var.	Prev. 2008	Dec
Argentina						
7 day Central Bank rate	9.00	0	75		---	
Badlar rate	12.31	18.75	156		16.00	
Brasil						
Official Rate	13.00	0	150		13.50	
Andima 1 year bond	14.71	5	321		---	
Chile						
Official rate	7.75	0	225		8.00	
Swap CLP	8.70	29	295		---	
10 year rate	3.31	-10	37		---	
Colombia						
Official Rate (BR)	9.75	0	50		10.20	
DTF	9.89	8	146		---	
TES jul-2020	11.58	-20	88		---	
México						
Tipo oficial (Tasa de fondeo bancaria)	8.25	0	96		8.25	
3 months rate	8.32	0	99		8.30	
10 years rate	8.54	-1	69		8.75	
Peru						
Official Rate	6,25	0	150		6,50	
10 year rate	7,86	2	141		---	
Venezuela						
Overnight (daily)	1.42	-258	-1188		9.67	
CD 28d (official)	13.00	0	3		13.50	
DPF 90d	17.07	-23	601		18.00	

Foreign exchange market

Against the backdrop of a new appreciation of the dollar against the euro, Latin American currencies weakened (except the Chilean peso)

Exchange Rate	End	Weekly Var. %	Yearly Var. %	Prev. Dec 2008
America				
Argentina (peso-dollar)	3.02	0.0	-4.2	3.10
Brazil (Real-dollar)	1.63	0.9	-16.8	1.65
Colombia (Peso-dollar)	1921	2.6	-11.1	1920.08
Chile (Peso-dollar)	517	-0.4	-1.3	504.00
México (Peso-dollar)	10.26	1.5	-7.0	10.95
Peru (New sol-dollar)	2.96	1.3	-6.5	2.70
Venezuela (Bolívar-dollar)	2147	--	0.0	2.15
dollar-Euro	1.47	-0.6	8.0	1.48

Emerging Spreads

Slightly increases in Latin American spread (with the exception of Venezuela)

EMBI+ sovereign spreads	End	weekly chg. Bps	Annual chg bps
EMBI+	305	4	71
EMBI + Latin America	330	2	72
Argentina	676	1	210
Brazil	244	4	37
Colombia	227	1	24
Chile*	171	3	61
México	187	3	67
Perú	208	8	32
Venezuela	639	-16	175
EMBI+ Asia	289	5	56
EMBI+ Europe	260	7	71

Commodity Markets

Oil prices raised due to concerns that tropical storm Gustav may reach the Gulf of Mexico, due to US-Russia geopolitical tensions and due to the dollar weakening. More recently, however, prices fell on news that US strategic reserves would be released in case Gustav causes output disruption.

Commodities	End	Weekly Var. %	Yearly Var. %	Forecast Dec 2008
Brent (\$/b)	115.3	1.2	58.7	103.7
Gold (\$/onza)	834	1.3	23.9	875.0
Copper (c/lb)	345	-2.2	0.8	2.8
Soy (c/bush)	1328	2.0	65.6	1331.0
Coffee (c/lb)	155	1.4	24.9	146
Goldman-Sachs Index	522	0.5	28.0	---
CRB Index	746	1.8	27.1	---

The week ahead

Day	Country	Indicator	Period	Last	Mkt Forecast	Comments
Monday						
	Colombia	CPI(YoY)	Aug	7.52%	7.85%	7.90%
	Peru	CPI	Aug	0.56% mom		0.6%-0.7% m/m
	Peru	CPI	Aug	5.79% yoy		6.3% a/a
Tuesday						
	Mexico	Manufacturing Opinion Survey	Aug	45.30		44.80
	Brazil	Industrial Production	July			
Wednesday						
	Colombia	PPI (mom)	Aug			
	Mexico	Manufacturing Index (IMEF)	Aug	49.80		
	Mexico	IMEF Index (without manufacturing)	Aug	49.40		
	Brazil	Capacity Utilization	July			
Thursday						
	Chile	Monetary Policy meeting	Aug	7.25%		7.75% BBVA
	Chile	CPI	Aug	9.50%		0.094
	Chile	Income Index	July	8.60%		
	Mexico	Consumer Confidence Index	Aug	88.40	87.1	87.00
Friday						
	Chile	IMACEC	July	5.00%		0.057
	Brazil	Inflation HCPI	Aug			

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	jul	8.0	2 Q 08	9.2	jul	32.5	jun	53.0	Jul	1001	Jul
Brazil	-	5.8	6.2	5.6	5.4	6.4	jul	8.1	jul	5.5	jun	8.2	39629.0	44.9	jul	3304	jul
Chile	4.3	3.3	4.0	3.9	6.2	9.5	jul	8.4	jun	-0.9	jun	-1.5	abr	19.1	Jul	18234.8	jul
Colombia	-	4.1	8.4	6.9	8.4	7.5	jul	11.7	jun	-6.6	may	-0.7	jun	75.0	jun	567,3	jun
Mexico	-	2.6	4.2	3.4	2.6	5.4	jul	3.6	jun	-0.5	jun	3.4	may	16	jun	277.2	jun
Peru	10.9	9.7	9.8	8.8	8.6	5.8	jul	8.1	jul	7.5	jun	n.d.	-	13.2	jun	400	jun
Venezuela	7.1	4.9	8.5	8.6	7.8	33.7	jul	7.2	Jul	-1.4	may	43.52	may	76.18	jun	18597	jun

Sources: Bloomberg, Reuter, and BBVA staff estimates.