



Weekly Observatory

May 17th, 2010

Weekly Highlights (10th– 14th May 2010)

The Central Bank of Chile left interest rates unchanged, but signaled that the monetary tightening should soon start. Regarding activity data, confidence indicators moved upwards in Chile and in Colombia while in México industrial production data showed a widespread improvement within economic sectors. In Brazil, retail sales surprised to the upside and reinforced the view that the growth in the first quarter of the year could be significantly higher than previously expected.

1. Argentina

- The government announced a program whereby provincial debt with the national government totaling approximately \$ 70 billion is refinanced. This is a measure to meet the expectations of provincial governments and neutralize some projects of the opposition parties in Congress. The CER index adjustment is replaced by a fixed rate of 6% and the final maturity is put off to 2030. Moreover, undistributed ATN fund resources (Contributions from the National Treasury) will be applied to cancel debt.
- Argentina extended by two days a term limit date for institutional investors involved in the debt exchange as more investors than expected are studying the new proposal. The TFA (Task Force Argentina), whose bondholders were organized to litigate against Argentina, criticized the offer. However, they announced that will not interfere on each bondholder decision (they represent Italian bondholders with USD 4.4 billion in defaulted bonds).
- Inflation expectations of the UDT fell slightly from the previous month and are at 25% for the next 12 months according to the median of the survey.

2. Brazil

- Activity data continues to show the robustness of the Brazilian growth in the first quarter of the year. Retail sales, which were released this week, expanded 1.6% m/m in March, more than expected by the markets (1.0% m/m) and equal to February's growth. In comparison to March of 2009, retail sales increased 15.7%. In the first quarter as a whole, retail sales grew 12.8% y/y. Taking in account these figures, our Synthetic Activity Indicator shows that GDP could have expanded around 2.5% q/q in the first quarter of the year, considerably higher than expected some months ago and higher than the observed in the last quarter of 2009 (2.0% q/q).
- The government announced a RS10 billions (0.3% of the GDP) cut in the national budget's expenditures with the goal to moderate the expansion of the economic activity.

3. Chile

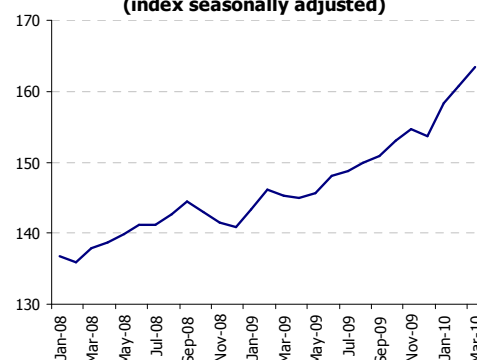
- In its monetary policy meeting in May, the Central Bank Board decided to maintain the policy rate at 0.5%. However, the Council noted that soon will start its tightening cycle, in line with our forecast of a first increase of 25 bps. in June.
- • The Economic Expectations Survey shows a decline in expected inflation and a rise in expected exchange rate. For its part, the consumer confidence marks a slight recovery, but stays in the negative ground (48.3).
- • In April the accumulated trade surplus reached USD 3.408 million, 62.4% higher than the same month in 2009. The stock market recorded an increase of 1.7% with a relatively short volatility considering the international context.

Argentina: Inflation Expectation



Source: Torcuato Di Tella University

Brazil: Retail Sales
(index seasonally adjusted)



Source: IBGE

IPSA (stock index)
(May 6 to May 13, 2010)



Source: Santiago Stock Exchange

4. Colombia

- Consumer's confidence index in April continue its recovery process highlighting the better perception of current and expected economic situation as well as the decrease in the fear of job loss in the next 12 months
- Industrials and retailers survey for March showed an increase of orders while the inventories continue to drop. Retailers report a rise in its sales which is consistent with the good performance of the sector all through the year.
- In April BanRep bought USD400 million, which led to an accumulation of USD800 million in international reserves throughout the year. At the same time, it sold \$1.2 billion of TES which implies an available balance of \$1.6 billion in its TES portfolio.

5. Mexico

- March's industrial production grew 0.9% m/m, in line with our forecast; annually it expanded 7.6%, the highest rate since July 2006. Its three components registered positive monthly growth, being the manufacturing industry the most dynamic. Manufacturing expanded 1.5% m/m during March (13.1% yoy), with mixed performances among its branches, for example the automotive industry grew 0% m/m on average during the quarter, in contrast with the basic metallic industry and the plastic industry that expanded 12% and 9.5% on a monthly average respectively during the period. Construction grew 0.3% m/m (-1.8% yoy) however it hasn't grown on an annual basis yet. Industrial production will continue its recovery in the following months driven by the manufacturing sector and, eventually the contribution of the sectors most linked to internal demand will improve.
- Next week the GDP for 1Q10 will be known, we expect that it grew 0.9% quarterly but with downside bias. We will also know March's monetary policy decision, we expect Banxico will keep the reference rate unchanged at 4.5%.

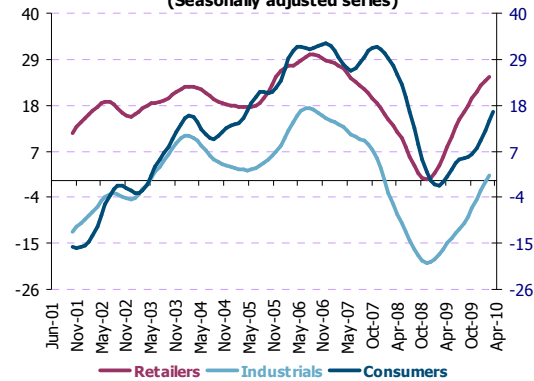
6. Peru

- Leading activity indicators published in this week continue to suggest an acceleration of domestic demand. For instance, the value of imports grew 51.3% yoy in March (21.3% yoy in February), mainly explained by higher purchases of raw materials and intermediate goods. On the other hand, Central Government tax revenues increased 26.6% yoy in real terms in April (24.2% yoy in March).
- The Ministry of Economy announced a package of measures aimed to reduce the fiscal stimulus and fulfill the limit for 2010 (2% of GDP). The package states that National Government's spending on goods and services should not increase by more than 3% (nominal) related to 2009. It is worth mentioning that this level of government accounts for 70% of total governmental purchases of goods and services. Additionally, investments that have not started to date only can be executed up to 25% of its total respective budgets. Finally, approvals of claims outside the Budget were suspended until December 2010.

7. Venezuela

- Failure at Guri caused unavailability in the "Sistema Eléctrico Nacional" (SEN) by 747 megawatts. A mechanical failure caused a break down in the machine number 8 of the reservoir. Union representatives indicated that even with the interruption the SEN has been covered country's demand; however, different town of the country have been faced with service disruptions.
- In first discussion, National Assembly approved an amendment in the foreign exchange control law. The proposal extends the definition of foreign currency including international bonds; additionally Central Bank will be the responsible of regulating the unofficial currency market creating a new working scheme in this market.

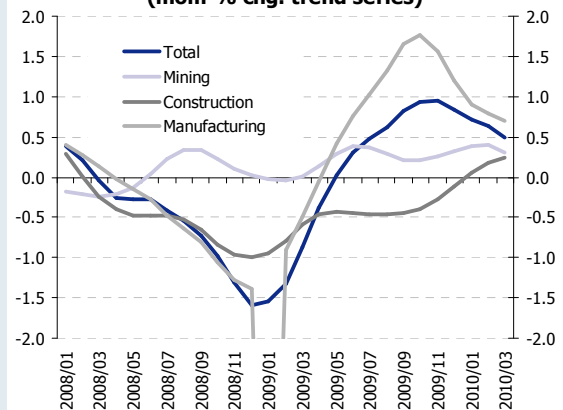
Colombia: Consumers, Retailers and Industrials Confidence Index
(Seasonally adjusted series)



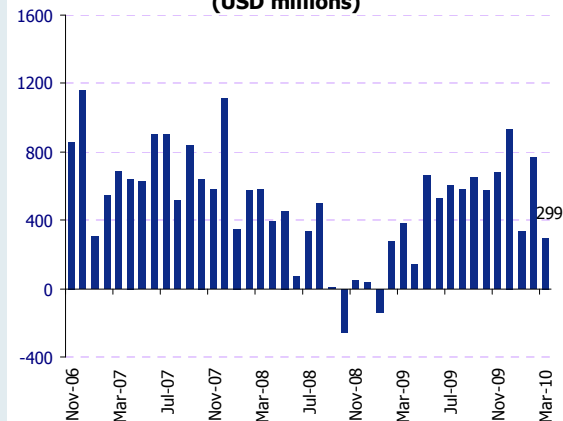
Source: Fedesarrollo

BBVA ERD

Industrial Production & Components
(mom % chg. trend series)

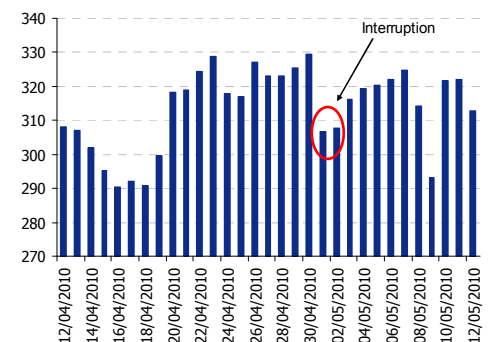


Peru: trade balance
(USD millions)



Source: BCRP

Venezuela: Generated Energy by the SEN



Source: Opsis

The latest from markets

Bond and Money markets

Market	End	Weekly Var.	Yearly Var. Bp	Forecast. Dec 2010
Argentina				
7 day Central Bank rate	9,00	0	-150	---
Badlar rate	9,25	0	-506	16,00
Brazil				
Official Rate	9,50	0	-75	10,25
Andima 1 year bond	11,77	5	64	---
Chile				
Official rate	0,50	0	-75	2,00
Swap CLP	1,49	10	-403	---
10 year rate	6,40	-3	93	---
Colombia				
Official Rate (BR)	3,00	0	-300	4,25
DTF	3,77	-23	-585	---
TES jul-2020	8,19	-5	-167	---
Mexico				
Official Rate (fondeo)	4,50	0	-150	4,50
3 months rate	4,65	0	-63	---
10 years rate	7,35	-25	-34	---
Peru				
Tipo oficial	1,50	0	-250	2,00
Tipo 10 años*	6,08	7	68	0,00
Venezuela				
Overnight-interbancaria (diaria)	0,52	-2	-931	6,50
CD 28d (oficial)	6,00	0	-800	6,00
DPF 90d	14,50	-117	-152	13,50

Foreign exchange market

Widespread recovery in regional currencies this week, especially the Brazilian Real, the Colombian peso and the Mexican Peso.

Exchange Rate	End	Weekly Var. %	Yearly Var. %	Forecast. Dec 2010
America				
Argentina (peso-dollar)	3,89	0,0	4,4	4,16
Brazil (Real-dollar)	1,78	-3,1	-14,7	1,76
Colombia (Peso-dollar)	1952	-3,4	-13,4	2070
Chile (Peso-dollar)	530	-0,3	-5,5	500
Mexico (Peso-dollar)	12,40	-3,5	-6,3	12,70
Peru (New sol-dollar)	2,84	-0,6	-6,1	2,85
Venezuela (Bolívar-dollar)	2.60-4.30	-	-	2.60-4.30
dollar-Euro	1,26	-1,0	-7,1	1,22

Emerging Spreads

The reduction in global risk aversion supported a decline in regional Spreads.

EMBI+ sovereign spreads	End	weekly chg. Bps	Annual chg bps
EMBI+	278	-16,4	-225
EMBI + Latin America	326	-18,4	-248
Argentina	696	-40,2	-869
Brazil	197	-16,8	-140
Colombia	203	-9,8	-147
Chile*	126	-6,1	-129
Mexico	155	-25,7	-136
Peru	179	-15,6	-137
Venezuela	976	-7,2	-345
EMBI+ Asia	210	-17,0	-160
EMBI+ Europe	224	-11,9	-203

Commodity Markets

Recovery of commodity prices following the positive tone of the markets.

Commodities	End	Weekly Var. %	Yearly Var. %	Forecast Dec 2010
Brent (US\$/Bbl)	79,8	2,0	2,5	74
Gold (US\$/Troy oz)	10	6,0	15,2	---
Copper (US\$/t)	7160	3,1	-2,9	5181
Soybean (US\$/t)	338	0,7	-7,9	330
Corn (US\$/t)	129	0,5	-11,6	172
Goldman-Sachs Index	509	-8,0	26,8	---
CRB Index	465	-3,6	17,0	---

Stock Markets

Following the losses caused by the contagion of the problems in Europe, Latin-American stock markets recovered this week.

Stock Exchange	End	Weekly Var. %	Yearly Var. %
The Americas			
Argentina (Merval)	2281	5,6	58,5
Brazil (Bovespa)	64788	3,0	32,2
Colombia (General Index)	12348	2,9	37,7
Chile (IGPA)	18085	2,5	29,3
Mexico (IPC)	32342	2,7	38,6
Peru (Lima General)	15490	4,3	29,7
Venezuela (IBC)	61891	0,2	40,1
USA			
S&P 500	1157	4,2	31,1
Nasdaq 100	2394	5,7	42,5
Europe			
Londres (FTSE)	5434	6,1	25,0
EuroStoxx50	2513	8,0	22,3
Ibex35	9978	10,3	11,1
Estambul-100	57873	9,8	72,8
Asia			
Nikkei	10463	0,9	12,9
China	2698	0,3	2,0

The week ahead

Day	Country	Indicator	Period	Last/prev	Mkt Forecast	BBVA
Monday						
	Chile	Weekly Situation Indicator (CBCh)	May.			
Tuesday						
	Chile	Quarterly Situation Indicator (CBCh)	1Q 2010			
	Colombia	Imports	Mar.	0,105		
	Peru	GDP YoY NSA	Mar.	0,059	0,068	
	Peru	Unemployment	Apr.	0,092	0,089	
Wednesday						
	Colombia	Retail Sales	Mar.	3,9		6,57
	Colombia	Industrial Production	Mar.	3		6,83
	Colombia	Retail Sales	Mar.	3,9		
	Venezuela	GDP	I Q10	-0,058	-0,038	Estimation BBVA, -4,9%
Thursday						
	Chile	Weekly Situation Indicator (CBCh)	May.			
Friday						
	Argentina	Weekly Situation Indicator (CBCh)	Mar.			
	Argentina	Estimator Monthly Economic Activity	Apr.	Mu\$ 311		Mu\$ 2105
	Argentina	Balance of Trade Balance	1Q 2010	0,084		0,088
	Argentina	Unemployment Rate	Apr.	10,6% a/a		8,3% a/a
	Argentina	Monthly Industrial Estimator	Mar.	6,0% a/a		6,0% a/a

Macroeconomic Indicators

	GDP (yoy)					Inflation		Unemployment		Industrial Prod.		Sales		Exports		Trade Balance	
	4Q09	3Q09	2Q09	1Q09	4Q 08	yoy		(% active pop.)		yoy		yoy		yoy		m USD	
Argentina	2,6	-0,3	-0,8	2,0	4,1	10,2	Apr	8,4	4Q09	10,6	Mar	22,9	Mar	10,6	Mar	311	Mar
Brazil	4,3	-1,2	-1,6	-2,1	0,8	5,3	Apr	7,6	Mar	19,7	Mar	15,7	Mar	23,0	Apr	1283	Apr
Chile	2,1	-1,4	-4,5	-2,1	0,7	0,5	Apr	9,0	Mar	-17,4	Mar	-8,9	Mar	24,7	Apr	1362	Apr
Colombia	2,5	-0,2	-0,3	-0,5	-1,0	2,0	Apr	13,4	Feb	3,0	Feb	3,9	Feb	19,4	Mar	233	Feb
Mexico	-2,3	-6,1	-10,0	-7,9	-1,1	4,3	Apr	4,8	Mar	7,6	Mar	2,3	Feb	39,0	Mar	237	Mar
Peru	3,4	-0,6	-1,2	1,9	6,4	0,8	Apr	9,2	Mar	7,2	Feb	n.d.	n.d.	47,2	Feb	798	Feb
Venezuela	-5,8	-4,6	-2,6	0,5	3,5	31,9	Apr	8,7	Mar	-11,6	Dec	19,1	Dec	56,1	Dec	8340	Dec

Sources: Bloomberg, Reuter, and BBVA staff estimates.