



# Weekly Observatory

November 06th, 2009

## Weekly Highlights (02<sup>nd</sup> – 06<sup>th</sup> November 2009)

Inflation data for the month of October show a slowdown in Colombia, Chile, Peru and Venezuela; and in the case of the first three countries, variation yoy is below the target range of their central banks. The absence of price tensions provides that the Central Bank of Peru maintains the reference rate unchanged. With regard to activity data, it can be highlight an increase in industrial production in Brazil, which however, stays underneath of consensus.

### 1. Argentina

- October's tax revenues were in line with expectations and reached \$ 26417 millions, increasing by 8.8% y/y and continue the tendency of last months. Taxes on Social Security (52.9% y/y) have continued holding the revenue in current level. A deceleration was registered in consumption related taxes like VAT (6.6 %) and debt and credit bank taxes (1.3 %). Export duties show the effect of lower export prices (-21.3% y/y). Tax revenue has grown by 11.9 % accumulated in this year.
- The suspension of the "lock law" has received partial approval by Congress. This law prevented the reopening of the debt swap of 2005. The ruling party and the opposition agreed to suspend its application for one year in order to expedite a swap that might re-open access to international debt markets.

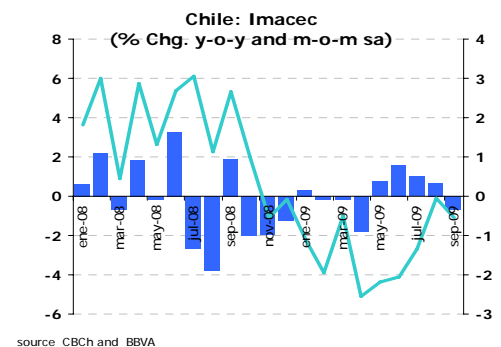
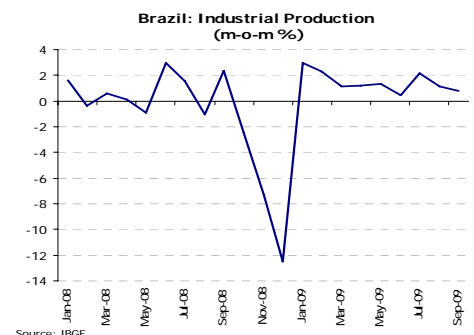
### 2. Brazil

- Industrial production rose 0.8% m-o-m (-7.8% y-o-y) in September. This is the ninth monthly expansion in a row after the large drop observed in the fourth quarter of 2009. The industrial production figure for September was lower than expected by markets (1.7% m-o-m; -6.4% y-o-y).
- Local media reported that the Central Bank is studying measures to restrain the appreciation of the real, which would focus on a larger opening of capital account (for example, allowing local funds to invest abroad, and similar measures).

### 2. Chile

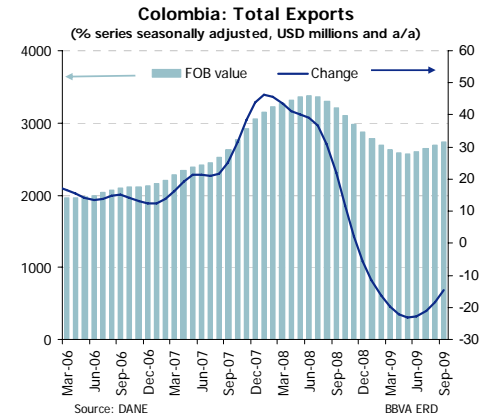
- Contrary to market expectations, during September the IMACEC index decreased 1.1% yoy and 0.3% compared to August, thus interrupting four consecutive months of growth in the margin. The fall is mainly explained by the poor performance of the manufacturing sector, which more than offset the result of mining and retailing.
- The Capital Goods Corporation stated that the amount of private foreign investment projects in Chile that were suspended or postponed by the crisis fell 15.4% during III09 compared to the prior quarter reaching \$ 16,813 million.
- The CPI did not change in October, in line with market expectations and our projection. With this data, accumulative inflation so far this year is -0.6% and 1.9% in twelve months

ARGENTINA TAX REVENUES	Variación interanual, Oct-09		
	Last Month	Last Quarter	Acum. Year
VAT	6,6%	7,0%	7,8%
Earnings	4,7%	-1,6%	1,3%
Social Security	52,9%	54,0%	53,7%
Export duties	-21,3%	-35,6%	-17,1%
Debit and Credit Bank Taxes	1,3%	1,7%	4,3%
<b>Total Tax Revenue</b>	<b>8,8%</b>	<b>7,6%</b>	<b>11,9%</b>



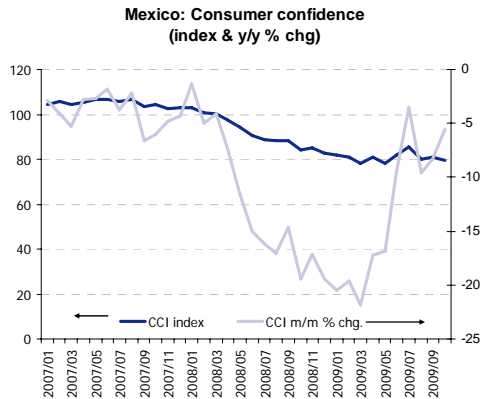
**4. Colombia**

- Credit loans continued to decelerate with a yearly increase of 4.2% in September, compared to 6.8% last month. Commercial loans continued to show the largest deceleration during the past month.
- The urban unemployment rate in September was 12.9%, compared with 11.7% the same month one year ago. Higher unemployment continues to be explained by an increase in labour force participation and not by job destruction.
- In September exports fell 10.7% yoy and 18.5% year to date. However, when seasonally adjusted, exports reveal their fourth consecutive monthly increase.
- CPI fell -0.13% in September accumulating an annual variation of only 2.7%.



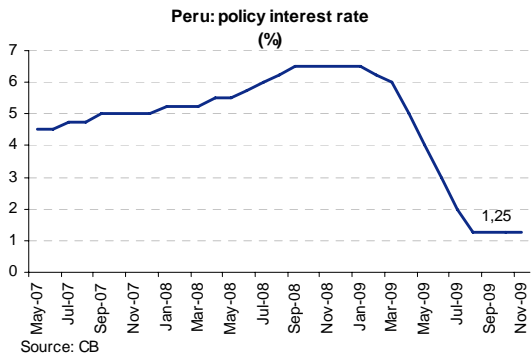
**5. Mexico**

- In October consumer confidence fell -1.8% m/m reaching 79.5 level and continuing its downward path. All five of its components weakened in October, but two of them stand out, the one that compares the current economic situation to the a year ago which fell -5.3% m/m, and the one that captures the household possibility of buying durable goods, which contracted -6.3%. This situation is coherent with a very mild consumption recovery comparing with Mexican cyclical path. In October the IMEF manufacturing index refrained its expansion (above the threshold of 50 pts.) reaching 52.9 pts. from 51.7 pts. in September, confirming the improved performance by the industrial sector. Next week September's industrial production will be published, it is the last timely data previous to the publication of the 3Q09 GDP.



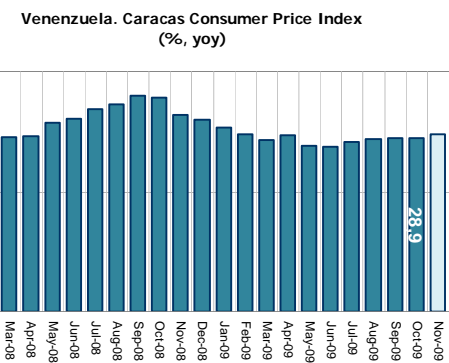
**6. Peru**

- CPI increased 0.12% m/m in October, a result that is mainly related to the rise in some food prices. Thus, yoy inflation continued to decline, going from 1.2% in September to 0.71% in October, below the Central Bank's target (2%, +/- 1pp). This downward trend mainly reflects the reversal of supply shocks that occurred in 2008 and which affected domestic prices of fuels and food.
- In its monetary policy meeting on Thursday 5th, the Central Bank Board kept its policy rate at 1.25% (at this level since August). According to the CB press release, this decision was based on the sustained decline of yoy inflation and on the continuous reduction of inflation expectations. It does not anticipate further policy rate changes.
- According to figures released by the Central Bank, public investment expanded by 26.7%yoy in 3Q09. This is the highest growth rate in the year (23.4% y/y in 1Q09 and 12.9% y/y in 2Q09). Thus, the implementation of the fiscal stimulus is accelerating.



**7. Venezuela**

- In October inflation rate slowed down to 1.9% in national terms, which is consistent with our baseline scenario. On y/y basis prices change 26.7%. Given seasonal effect on several agricultural goods and the announcement of increases on electric utility rate by the last two months of the year, it is expected that inflation will go back up to 29.7% at the end of 2009.
- PDVSA announced a new dollar denominated bond issuance in the domestic market before this year ends. Unofficial sources indicated that the total amount would be between USD 3,000 MM and USD 5,000 MM. This way, the Executive Branch will continue applying its strategy of placing bonds as a mechanism to lessen the exchange gap.



## The latest from markets

## Bond and Money markets

Market	End	Weekly Var.	Yearly Var. Bp	Forecast. Dec 2009
<b>Argentina</b>				
7 day Central Bank rate	9,00	0	-150	---
Badlar rate	11,19	-18,75	-1044	16,00
<b>Brazil</b>				
Official Rate	8,75	0	-500	8,50
Andima 1 year bond	9,87	-14	-559	---
<b>Chile</b>				
Official rate	0,50	0	-775	0,50
Swap CLP	0,72	2	-754	---
10 year rate	6,10	13	-58	---
<b>Colombia</b>				
Official Rate (BR)	4,00	0	-600	4,50
DTF	4,35	-10	-585	---
TES jul-2020	8,30	-10	-480	---
<b>Mexico</b>				
Official Rate (fondeo)	4,50	0	-375	5,50
3 months rate	4,61	-1	-318	5,47
10 years rate	8,12	-1	-84	6,90
<b>Peru</b>				
Official Rate	1,3	0,0	525,0	1,25
10 years*	5,7	17,0	-265,0	
<b>Venezuela</b>				
Overnight-interbank (daily)	19,8	98,0	1181,0	5,00
CD 28d (official)	6,0	0,0	-800,0	6,00
DPF 90d	15,5	-131,0	-156,0	14,50

## Foreign exchange market

The Brazilian real appreciated for third consecutive week.

Exchange Rate	End	Weekly Var. %	Yearly Var. %	Forecast. Dec 2009
<b>America</b>				
Argentina (peso-dollar)	3,82	0,0	15,4	4,10
Brazil (Real-dollar)	1,72	-2,4	-20,4	1,88
Colombia (Peso-dollar)	1975	-1,1	-14,2	2252,56
Chile (Peso-dollar)	524	-1,7	-17,7	560,00
Mexico (Peso-dollar)	13,28	0,4	3,6	13,10
Peru (New sol-dollar)	2,90	-0,5	-6,2	2,97
Venezuela (Bolivar-dollar)	2147	0,0	0,0	2150,00
dollar-Euro	1,49	1,1	16,8	1,44

## Emerging Spreads

Generalized drops in country risk except for Venezuela which had a rise of 21Bps.

EMBI+ sovereign spreads	End	weekly chg. Bps	Annual chg bps
EMBI+	316	-8,8	-285
EMBI + Latin America	357	-7,3	-299
Argentina	735	2,4	-979
Brazil	228	-9,8	-215
Colombia	222	-7,3	-271
Chile*	138	-1,4	-215
Mexico	191	-13,0	-205
Peru	194	-16,0	-250
Venezuela	1003	21,0	-391
EMBI+ Asia	266	-10,7	-217
EMBI+ Europe	259	-10,8	-287

## Commodity Markets

USD weakness prompted another week of price increases in most commodities, especially precious metals and oil. In contrast to last week, the gain extended to agricultural commodities, largely due to fundamentals. Base metals departed from these trends, remaining stable or with marginal changes.

Materias primas	Cierre	Var. Sem. %	Var. Anual %	Prev. Dic 2009
Oil Brent (US\$/Bb)	78,5	4,3	72,1	61,0
Gold (US\$/ounce)	10	7,3	53,6	0
Copper (US\$/t)	6531	0,8	112,7	5732
Soybeans (US\$/t)	344	-0,3	0,3	368
Corn (US\$/t)	133	2,9	-7,4	130
Goldman-Sachs Price Index	508	1,0	21,4	---
CRB Price Index	462	0,4	26,7	---

## Stock Markets

Latin American stock markets followed bullish trend of Wall Street after positive employment data published in the United States.

Stock Exchange	End	Weekly Var. %	Yearly Var. %
The Americas			
Argentina (Merval)	2223	5,1	102,7
Brazil (Bovespa)	64816	5,3	76,8
Colombia (General Index)	10950	2,5	53,1
Chile (IGPA)	15776	0,8	29,9
Mexico (IPC)	29735	3,8	49,7
Peru (Lima General)	14590	2,7	80,9
Venezuela (IBC)	50749	-0,1	45,4
USA			
S&P 500	1067	2,9	14,6
Nasdaq 100	2105	2,9	27,8
Europe			
Londres (FTSE)	5136	1,8	17,7
EuroStoxx50	2436	1,1	6,6
Ibex35	11573	1,4	23,9
Estambul-100	47626	0,9	78,7
Asia			
Nikkei	9789	-2,4	14,1
China	3164	5,6	81,0

## The week ahead

Day	Country	Indicator	Period	Last/prev	Mkt Forecast	BBVA
<b>Monday</b>						
	Chile	Weekly Economic Indicators (CBCh)	November			
	Brazil	Car exports(Anfavea)	October	43084		
	Chile	Economic Expectations Survey (CBCh)	October			
	Peru	Commercial Balance	September	USD 541 millones		
<b>Wednesday</b>						
	Colombia	Imports	September	0		
	Colombia	Commercial Balance	September	259,7		
	Mexico	Industrial Production	September	-7.3	-7.2	-7.8
	Mexico	Gross Fixed Investment	August	-14.7	-7.3	-8.0
	Brazil	IBGE IPCA (YoY)	October	4,34%	4,10%	
<b>Thursday</b>						
	Argentina	Consumer Price Index	October	0,7% m/m		0,8% m/m
	Argentina	Wholesale Internal Price Index	October	0,8% m/m		
	Argentina	Construction Cost Index	October	0,4% m/m		
	Chile	Monetary Policy Meeting (CBCh)	November			
<b>Friday</b>						
	Chile	CPI and other prices (INE)	October			
	Peru	Unemployment rate	October	8%		
	Peru	GDP (change % yoy)	September	0,003		BBVA: -0.4%

## Macroeconomic Indicators

	GDP (yoy)					Inflation		Unemployment		Industrial Prod.		Sales		Exports		Trade Balance	
	2Q09	1Q09	4Q08	3Q 08	2Q 08	yoy		(% active pop.)		yoy		yoy		yoy		m USD	
Argentina	-0,8	2,0	4,1	6,9	0,0	6,2	Sep.	8,8	2Q09	0,1	Sep.	15,1	Sep.	-34,0	Sep.	926,0	Sep.
Brazil	-1,2	-1,8	1,3	6,8	6,2	4,3	Sep.	7,7	Sep.	-7,8	Sep.	4,7	Aug.	-23,9	Oct.	1328,0	Oct.
Chile	-4,5	-2,3	0,2	4,6	1,0	-1,1	Sep.	10,2	Sep.	-5,2	Sep.	-2,2	Sep.	9,3	Sep.	1525,1	Sep.
Colombia	-0,5	-0,4	-1,1	2,8	3,9	2,7	Sep.	12,9	Sep.	-3,3	Aug.	-0,9	Aug.	-10,7	Sep.	259,7	Aug.
Mexico	-10,3	-8,0	-1,6	1,7	2,9	4,9	Sep.	6,4	Sep.	-7,3	Aug.	-5,5	Aug.	-17,3	Sep.	-1075,0	Sep.
Peru	-1,1	1,8	6,5	10,9	11,7	0,7	Oct.	7,8	Sep.	-9,8	Aug.	n.d.	n.d.	-23,4	Aug.	539,0	Aug.
Venezuela	-2,4	0,5	3,5	3,8	7,2	26,7	Sep.	8,4	Sep.	-12,4	Jun	-12,0	Jun	-53,6	Jun	3212,0	Jun

Sources: Bloomberg, Reuter, and BBVA staff estimates.