



# Weekly Observatory

May, 08th, 2009

## Weekly Highlights (04th – May 08th, 2009)

The monetary authorities' response to the slowdown continues with a vigorous policy of monetary relaxation. On this occasion, Peru and Chile lowered their reference rates by 50 bps and 100 bps respectively. The latest inflation data support this position by the central banks, with surprisingly low results in all cases reported during the week (Chile, Colombia, Peru and Venezuela). Brazil presented their industrial production data, which showed an important correction for 1Q09 GDP.

### 1. Argentina

- April tax revenues were Ar\$ 23047 Million, an increase of 13.9% over the same month of last year and above consensus forecasts. The positive surprise originated mainly in the fact that Export Duties, which had contracted 2.2% y/y in the last three months, recovered in April, increasing 0.7% y/y (probably due to the hike in grain prices).

VAT increased 5.4% y/y in the same period, supported only by domestic consumption, since VAT collected by Customs fell by 23% (accumulated y/y) due to the continued decline in imports (-35% y/y in 1Q2009).

### 2. Brazil

- Industrial production increased 0.7% m-o-m (-10.0% y-o-y) in March. The production of durable goods displayed the best performance (+1.7% m-o-m) while the production of capital goods, the worst (-6.3% m-o-m). The trade balance displayed a USD 3.7 billion surplus in April (USD 1.7 billion in April of 2008).

- The net inflow of foreign capital amounted to USD 1.4 billions in April. This is the best result since September of 2008 when the net inflow was USD 2.8 billions. The capital inflow is helping to support the domestic currency and the Brazilian stock exchange. Both are in their highest levels since the beginning of the crisis.

### 3. Chile

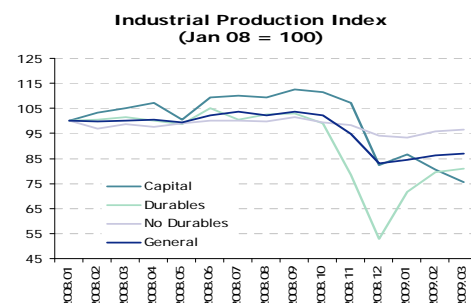
- Central Bank of Chile cuts monetary policy rates by 50 bps, to 1.25%, because of low inflation and weak economic activity.

- April inflation surprised the markets with a 0.2% decrease (+0.2% BBVA). At year end, inflation would reach 1.2% without considering that the fuels' tax might be reinstated (adding 0.6 pp). A more lax monetary policy could be implemented as of now. The March monthly activity index was also surprising, with a -0.7% variation (-1.7% BBVA). Two more working days compensated for the negative outcomes in mining, industry and commerce. Finally, the trade balance as well as the balance of payments have accumulated surpluses of US\$ 2,736.8 and US\$ 659.3 respectively during the January-April period.

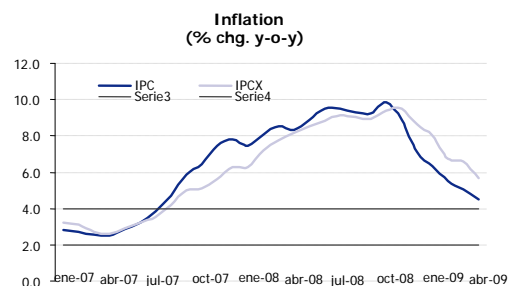
- The government announced a plan to support employment that will benefit 125,000 people, with a cost of US\$ 237 million. It is intended to avoid layoffs as well as to promote skills' acquisition.

Main taxes	Year on year change		1/ Last month
	Last 12 month	Last quarter	
VAT	17,8%	11,6%	5,4%
Income	16,6%	3,7%	2,9%
Social Security	53,4%	56,4%	49,7%
Export duties	33,8%	-2,2%	0,7%
Financial transactions tax	18,4%	5,3%	3,9%
<b>Total</b>	<b>25,8%</b>	<b>17,5%</b>	<b>13,9%</b>

1/ Last information to April 2009.



Fuente: IBGE, BBVA



source: BCCh y BBVA

#### 4. Colombia

- On March urban unemployment rate was 13.5%, 1.5 bp higher than in the same period of 2008. This result is mainly explained by a different growth rate in total labor force (4.3%) and employment creation (2.3%). This result wasn't explained but a fall in employment.
- Colombia's inflation fell to 0.32% in April, 5.73% yoy, below market forecasts.
- Exports fell 17.4% yoy, due to lower terms on trade and a decline in non traditional exports. Trade deficit for February was USD 41.9 million FOB, with accumulative deficit in 2009 of USD 208.3 million FOB.

#### 5. Mexico

- Consumer Confidence improved in April, but it continued falling against one year ago level (-16% y/y), that is consistent with the current consumption expenditure adjustment. April's inflation was 0.35% m/m, as we expected; core inflation was slightly lower (0.38% vs. 0.42% BBVA), showing the opposite impact of depreciated exchange rate (pushing inflation) and demand correction (lowering inflation). All in all, we maintain our expectations of inflation fall in 2009. Taking into account and the protracted deterioration of economic activity, we estimate that Banxico will reduce next week its monetary policy interest rates in a range between 75 and 100 bp.

#### 6. Peru

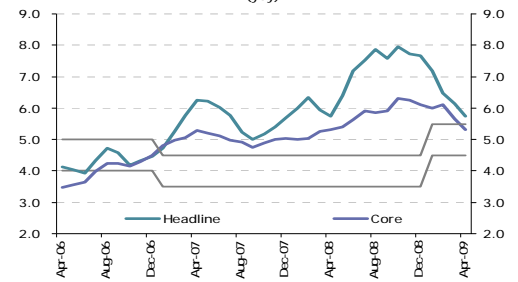
- The consumer price index (CPI) for April increased by 0.02% m/m, below market consensus (0.15% m/m). With this result, y/y inflation rate fell to 4.6% (4.8% in March and 6.7% in December). In this way, it keeps converging to the inflation target (2%, + /-1pp), which we expect to occur in the second half of the year.
- On May 7th, the Central Bank lowered its policy rate by 100bp (reductions in 2009 add up to 250bp), from 5% to 4%. This decision is based on the decline of both inflation and inflation expectations, and on private expenditure slowdown, the latter related to a downward adjustment of inventories and to the global economic deceleration. The Central Bank's pointed to further monetary policy easing shall this situation persists.
- Trade balance was positive in March (for a second month in a row) and reached USD 344 million. With this result, there was a trade balance surplus in 1Q09 of USD 446 million (exports by USD 5313 million and imports by USD 4867 million). With respect to 4Q08, this figure implies a trade balance improvement of USD 619 million, related to reductions in both exports and imports by 18% and 27%, respectively

#### 7. Venezuela

- Inflation accelerates, although a lower rate than market expected.**

In April, the National inflation rate placed at 1.8%, while in Caracas climbed to 2.3%. Even tough the current inflation level is relevant; the market fundamentals indicate higher rates. Increases on both public transportation administered fees and VAT (by 3pp) led prices jump. On y/y basis, inflation rate reached 28.3%. The neutrality of food inflation (0.0%) resulted unexpected, being explained by the agricultural food deflation (-4.7%). It is worth a mention the important boost of import goods, which increased by 8.0% on m/m basis, according to Wholesale Price Index.

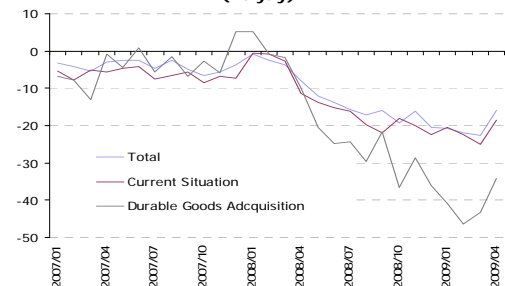
**Inflation in Colombia**  
(yoy)



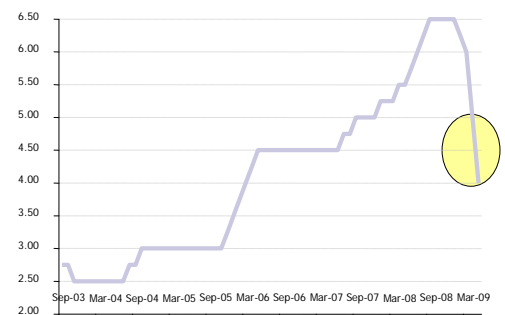
Source: DANE y Banco de la República

ERD BBVA

**Mexico: Consumer Confidence**  
(% y/y)



**Peru: policy interest rate**  
(%)



Source: BCR

Prepared by: BBVA Banco Continental ERD

**Prices figures in April**  
(%)

	Country	
	Inflation	Core Inflation
Monthly	1,8	3,1
Accumulated	6,7	9,6
YoY	28,3	30,9
Caracas		
Monthly	2,3	3,6
Accumulated	7,8	11,6
YoY	29,4	33,4

Source: BCV

## The latest from markets

### Bond and Money markets

Market	End	Weekly Var.	Yearly Bp	Var.	Forecast. Dec 2009
<b>Argentina</b>					
7 day Central Bank rate	10,50	0	250		---
Badlar rate	12,75	0	300		17
<b>Brazil</b>					
Official Rate	10,25	0	-150		9
Andima 1 year bond	9,79	-16,7	-346		---
<b>Chile</b>					
Official rate	1,25	-50	-500		2
Swap CLP	1,18	-12	-524		---
10 year rate	5,68	35	-87		---
<b>Colombia</b>					
Official Rate (BR)	6,00	0	-375		6
DTF	7,09	22	-266		---
TES jul-2020	8,87	-4	-196		---
<b>Mexico</b>					
Official Rate (fondeo)	6,00	0	-150,0		5,5
3 months rate	5,47	-21,0	-208,0		5,5
10 years rate	7,59	-18,9	-34,5		6,9
<b>Peru</b>					
Official Rate	4,00	-100	-150,0		2,00
10 years*	5,45	11,0	-95,0		
<b>Venezuela</b>					
Overnight-interbank (daily)	0,3	-31	-2724		15,9
CD 28d (official)	6,0	-100	-800		6,0
DPF 90d	16,1	9	209		16,0

### Foreign exchange market

The Latin American currencies are appreciating against the dollar this week, influenced by the expected rise in unemployment in the U.S. The Mexican peso appreciated after the Mexican government announced the end of the firms closure after the occurrence of swine influenza virus.

Exchange Rate	End	Weekly Var. %	Yearly Var. %	Forecast. Dec 2009
<b>America</b>				
Argentina (peso-dollar)	3,72	0,0	17,1	4,10
Brazil (Real-dollar)	2,11	-3,0	24,9	2,30
Colombia (Peso-dollar)	2223	-3,1	24,7	2543
Chile (Peso-dollar)	564,6	-3,4	20,0	590,0
Mexico (Peso-dollar)	13,14	-5,0	24,4	13,40
Peru (New sol-dollar)	2,96	-0,7	7,4	3,30
Venezuela (Bolívar-dollar)	2147	0,0	0,0	2700
dollar-Euro	1,34	1,2	-13,2	1,21

### Emerging Spreads

Sharp falls of country risk in the region, in line with the prevailing optimism in the markets. We highlight the fall of 306.5 pb of Argentina's EMBI spread.

EMBI+ sovereign spreads	End	weekly chg. Bps	Annual chg bps
EMBI+	466	-34,5	212,1
EMBI + Latin America	527	-30,0	250,9
Argentina	1379	-306,5	809,1
Brazil	305	-25,1	101,0
Colombia	313	-8,9	130,0
Chile*	264	-12,0	103,8
Mexico	254	-25,4	129,6
Peru	283	-0,4	132,9
Venezuela	1183	-54,1	567,7
EMBI+ Asia	335	-35,0	91,8
EMBI+ Europe	407	-43,8	190,7

### Commodity Markets

Perspectives of a higher demand for commodities, motivated by the positive flow of macroeconomic news, helped to drive prices up. The oil price surged around 9% and is being traded at the highest levels since November. The sharp oil price response to improvements in demand perspectives supports the view that prices could boom again whenever the world economy starts to recover.

Commodities	End	Weekly Var. %	Yearly Var. %	Forecast Dec 2009
Brent (\$/b)	57,5	8,8	-54,2	48,9
Gold (\$/onza)	915	3,2	3,4	875
Copper (c/lb)	213	2,1	-42,8	160
Soy (c/bush)	344	-4,8	-23,1	336
Coffee (c/lb)	188	0,9	31,5	#N/A
Corn (c/bush)	143	-0,2	-34,5	147
Goldman-Sachs Index	365	-1,1	-49,4	---
CRB Index	371	-1,3	-30,7	---

### Stock Markets

Rally In Latin American stock markets after the goods results from surveys of U.S. banking stress and rising commodity prices.

Stock Exchange	End	Weekly Var. %	Yearly Var. %
<b>The Americas</b>			
Argentina (Merval)	1424	11,7	-32,7
Brazil (Bovespa)	50058	5,9	-28,1
Colombia (General Index)	8737	4,87	-13,1
Chile (IGPA)	13370	4,7	-2,8
Mexico (IPC)	23589	7,7	-23,1
Peru (Lima General)	10824	8,5	-37,5
Venezuela (IBC)	44030	-0,5	15,6
<b>USA</b>			
S&P 500	907	3,4	-34,6
Nasdaq 100	1716	-0,2	-29,8
<b>Europe</b>			
Londres (FTSE)	4399	3,7	-29,1
EuroStoxx50	2075	2,4	-35,7
Ibex35	9229	2,1	-33,8
Estambul-100	32329	2,1	-23,1
<b>Asia</b>			
Nikkei	9433	5,1	-30,9
China	2626	6,0	-27,3

## The week ahead

Day	Country	Indicator	Period	Last/prev	Mkt Forecast	BBVA
<b>Monday</b>						
	México	Gross Fixed Investment	Feb	-8.5	-5.9	-3.5
	Chile	Economic Expectation Survey	May			
<b>Tuesday</b>						
	Colombia	Imports	March	2,527.17		
<b>Wednesday</b>						
	Argentina	IPC	April	0,6% m/m		0,5% m/m
	Argentina	Whole Sales Price Index	April	0,9% m/m		
	Argentina	Construction Cost Index	April	0,3% m/m		
	Chile	Monetary Policy Report (BCCh)	May			
<b>Thursday</b>						
	Colombia	Car Sales	April	15,324		
	Brasil	Retail Sales (YoY)	March	3.80%		
<b>Friday</b>						
	México	Employment	1T09	6.0	5.25	5.25
	Perú	GDP	March	0,2%a/a		BBVA:2,9%a/a - 3,3%a/a
	Brasil	FGV inflation IGD-10 (MoM)	May	-0.7%		
	Chile	Weekly Juncture Indicators (BCCh)	May			

## Macroeconomic Indicators

	GDP (yoy)					Inflation		Unemployment		Industrial Prod.		Sales		Exports		Trade
	4T08	3Q 08	2Q 08	1Q 08	4Q 07	yoy		(% active pop.)		yoy		yoy		yoy		m
Argentina	4.9	6.9	7.8	8.5		6.3	Mar	7.3	Dec	-0.9	Mar	13.5	Mar	-16.0	Mar	1307.0
Brazil	1.3	6.8	6.2	6.1	6.1	5.6	Mar	9.0	Mar	-17.0	Feb	3.8	Feb	-6.4	Mar	1771.0
Chile	0.2	4.6	4.6	3.4	3.8	4.5	Apr	9.2	Mar	-7.1	Mar	-8.3	Mar	-40.0	Apr	775.0
Colombia	-0.7	2.9	3.9	4.1	8.1	5.7	Apr	13.5	Mar	-12.8	Feb	-4.1	Feb	-17.4	Feb	-41.9
Mexico	-1.6	1.7	2.9	2.6	3.7	6.0	Mar	4.8	Mar	-13.2	Feb	-8.6	Feb	-25.1	Mar	159.9
Peru	6.7	10.7	11.7	10.3	9.8	4.6	Apr	9.3	Feb	-7.5	Feb	n.d		-31.3	Mar	254.0
Venezuela	3.2	4.1	7.3	5.0	8.5	28.3	Apr	7.3	Mar	-0.9	Jan	23.6	Jan	-45.9	Dec	-3724.0

Sources: Bloomberg, Reuter, and  
BBVA staff estimates.