



Weekly Observatory

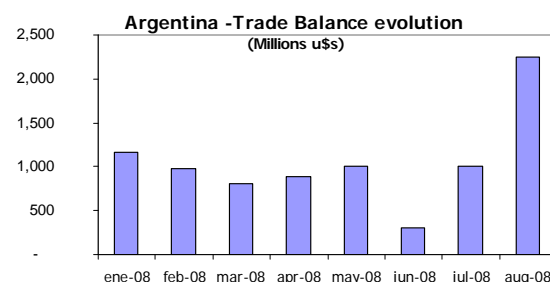
October 3rd, 2008

Weekly Highlights (September 26th – October 3rd, 2008)

The financial crisis deepens the bearish tone of most financial indicators in Latin America: country risk increases, drastic stock exchange falls, and currency depreciations against USD generalize across the region. The current international context should also affect monetary policy expectations, with the next central bank meetings taking place in Chile and Peru. Thus, liquidity tensions are pressuring interbank rates upwards, particularly in dollar-denominated markets. As a result, the Central Bank of Chile has abandoned its policy of dollar purchases, and the Central Bank of Colombia could follow suit in the following days.

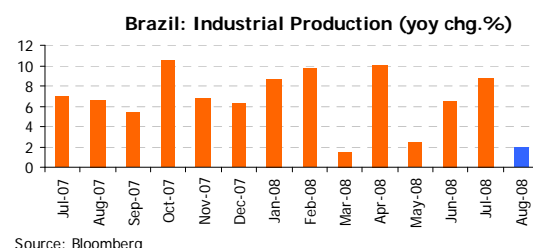
1. Argentina

- **August showed an important trade surplus of U\$S 2.245 M**, as exports grew 50% for the second consecutive month after they had shrunk due to the conflict with the farming sector. Thus, imports slowed down significantly because of the lower demand for energy products at the end of the winter season. Our annual trade surplus forecast (U\$S 10.800 M) could be exceeded in spite of the contraction in commodity prices (both agricultural and energy products) if oil seed and derivatives export volumes continue on the recent path.
- **Retail sales indicators** (shopping centers and supermarkets) **continued to perform satisfactorily in August**, while **Construction slowed down slightly**.



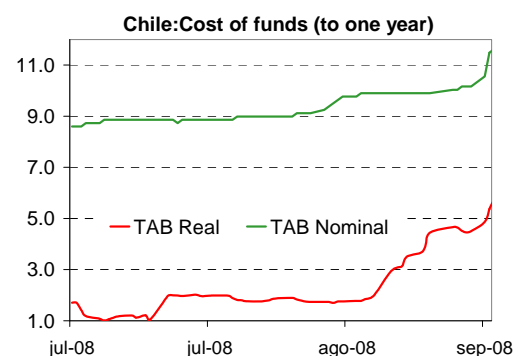
2. Brazil

- **Industrial production falls in August 1.3%** (seasonally adjusted). This is the largest monthly drop in 2008, significantly above market expectations of 0.6%. One of the first signs of activity deceleration, the news reinforce the idea that the monetary tightening implemented since April, and the restricted access to credit since the onset of the international liquidity crisis, are starting to leave their marks over economic activity.
- Brazilian markets face another turbulent week. **The Bovespa index accumulates losses over 9.1% until Thursday**, the largest weekly decline in 6 years. This bearish mood has extended to the real, depreciating 9.5% since Friday, and surpassing the 2 reais per dollar level (the highest level since August 2007). Mounting concerns over access to credit and commodity prices lie behind these falls.



2. Chile

- **September's inflation rate** was 1,1% m/m, above market expectations and our own (0,8%). Year on year inflation rates decreased moderately to 9,2% (9,3% in August). Food and energy explain around 70% of the change in prices, although pressure remains from non tradable goods prices.
- While **industrial and mining production decreased 3.1% and 3.8% (respectively) in August**, demand sectors continued expanding strongly. Total employment kept showing strength with a growth of 4%. Thus, our economic growth forecast for August is 4.5%.



- **The increase in domestic interest rates** during last week, due to the international financial crisis, took some pressure off the Central Bank's decision at its October 9th Monetary Policy meeting. Therefore, even with a high inflation rate, the interest rate hike may be smaller than the 50 bps we initially expected, and there could be a shift towards a more neutral stance as well in the press release.

4. Colombia

- **Colombia's inflation rate felt -0.19% (MoM)** in September, which represents an annual inflation rate of 7,57%. This result was driven by a decrease in the price of food (-1.24% MoM).
- **The government performed a swap operation of local fix rate debt for COP 2,2 billions** (USD 1015.7). The exchange was made to improve local debt outlook.
- **The Current Account deficit for 1S08 was USD 2393 millions**, 2,2 % of GDP. This result implies a decrease in the deficit of USD 990 millions compare to the 1S07.

5. Mexico

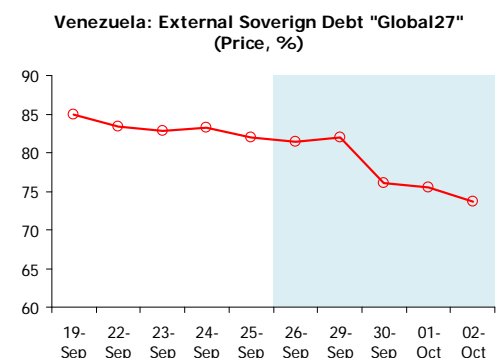
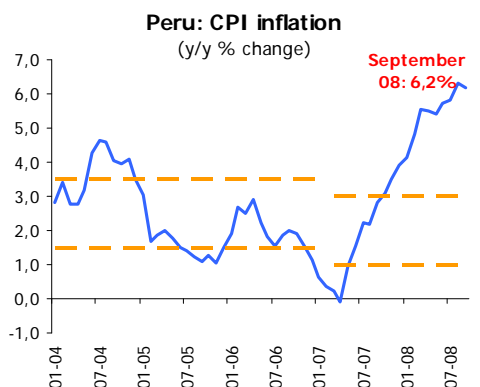
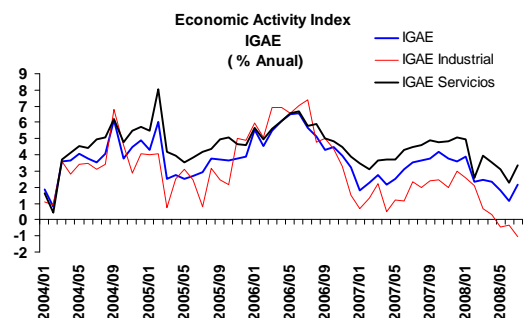
- **In July, the Global Activity Index (IGAE) surpassed the market expectations (2.8% vs. consensus 2%)** driven by the service sector (+4.2%) and agriculture (+9.7%). Professional and business assistance boosted the Services Index, despite the feeble dynamism in tourism and restaurant services. Our growth forecast for 2008 remains at 2.3%, but we cannot rule out a downward bias.

6. Peru

- **Inflation. In September, the Consumer Price Index increased 0,57% m/m**, mainly due to the increase in urban transport and food prices. With this result, accumulated inflation in the year is 5,29%, while in yoy terms it reached 6,22% (6,27% in August).
- **Monetary Policy Meeting. Next Thursday 9th monetary policy meeting we expect the Central Bank Board to keep the policy interest rate at 6,50%.** This decision would reflect the monetary authority's caution in the midst of a highly uncertain international environment.

7. Venezuela

- The price of the benchmark **Global 2027 bond** issued by Venezuela lost 775 bp during last week. On a national basis, **overnight bank funds and interest rates** marked usual levels. **Stock market index** slightly fell -1,5% in this period.
- **Government started selling VEBONOS** (2011 y 2013) at a rate of VEF 350 MM (USD 162,7 MM) a week. The explicit reason of rising funds was to compensate the lower public income after a financial transaction tax was eliminated in June.
- The **Superintendency of Banks appointed an special auditor** to regulate all financial operations of a low size bank (1,4% of asset market share), which has been affected by holding an important position in LHB-issued securities.



The latest from markets

Bond and Money markets

Market	End	Weekly Var.	Yearly Bp	Var.	Prev. 2008	Dec
Argentina						
7 day Central Bank rate	8.25	0	0		---	
Badlar rate	12.19	212.50	306		16.00	
Brasil						
Official Rate	13.75	0	250		15.00	
Andima 1 year bond	14.37	-28	318		---	
Chile						
Official rate	8.25	0	250		8.75	
Swap CLP	8.97	-1	284		---	
10 year rate	3.32	-1	30		---	
Colombia						
Official Rate (BR)	10.00	0	75		10.18	
DTF	9.61	-44	84		---	
TES jul-2020	11.97	0	190		---	
México						
Tipo oficial (Tasa de fondeo bancaria)	8.25	0	100		8.25	
3 months rate	8.27	-3	89		8.30	
10 years rate	8.34	-10	50		8.75	
Peru						
Official Rate	6,50	0	150		6,75	
10 year rate	8,60	21	240		---	
Venezuela						
Overnight (daily)	4.64	-140	329		9.67	
CD 28d (official)	13.00	0	3		13.50	
DPF 90d	nd	nd	nd		18.00	

Foreign exchange market

With a background of sharp appreciation of the dollar against the euro, the currencies of the region recorded a significant depreciation. In the case of the Brazilian real, there is a strong adjustment, passing the level of 2 Real / USD due to more negative expectations about the evolution of prices of raw materials and access to credit.

Exchange Rate	End	Weekly Var. %	Yearly Var. %	Prev. Dec 2008
America				
Argentina (peso-dollar)	3.14	0.8	-0.4	3.10
Brazil (Real-dollar)	2.02	9.5	12.1	1.73
Colombia (Peso-dollar)	2184	3.6	9.5	1920.08
Chile (Peso-dollar)	571	5.8	13.4	504.00
México (Peso-dollar)	11.20	3.7	3.2	10.5
Peru (New sol-dollar)	2.98	0.3	-1.3	2.80
Venezuela (Bolívar-dollar)	2147	--	0.0	2.15
dollar-Euro	1.39	-5.1	-1.9	1.40

Emerging Spreads

In the context of higher global risk aversion, the EMBI spread recorded a spike of 70 bp on average. In Argentina, the spread is above the 1000 bp after registering a surge of nearly 250 bp. Venezuela also shows a sovereign spread much greater than average.

EMBI+ sovereign spreads	End	weekly chg. Bps	Annual chg bps
EMBI+	367	11	169
EMBI + Latin America	397	7	178
Argentina	826	21	435
Brazil	285	0	112
Colombia	271	12	117
Chile*	205	3	83
México	222	0	113
Perú	270	16	135
Venezuela	821	23	431
EMBI+ Asia	322	25	143
EMBI+ Europe	325	12	163

Commodity Markets

Dramatic and generalized fall in commodity markets, in the range of 9-13%.

The gloomy outlook about the global economy, and the mounting concerns over the resolution of the international financial crisis lie behind the price drops. All of this in the context of further dollar appreciation.

Commodities	End	Weekly Var. %	Yearly Var. %	Forecast Dec 2008
Brent (\$/b)	90.4	-12.7	14.5	104.8
Gold (\$/onza)	843	-4.1	13.5	875.0
Copper (c/lb)	267	-13.8	-29.0	3.1
Soy (c/bush)	1124	1.0	20.9	1331.0
Coffee (c/lb)	146	2.7	5.7	146
Corn (c/bush)	547	0.8	45.8	623.0
Goldman-Sachs Index	482	4.0	8.7	---
CRB Index	717	6.2	7.2	---

The week ahead

Day	Country	Indicator	Period	Last	Mkt Forecast	Comments
Monday						
	Chile	Monthly Indicator of Economic Activity (Imacec)	Aug	6.2%		4.5%
Tuesday						
	Chile	Exports	Set			
	Chile	Imports				
	Brasil	Capacity utilization	Aug		83.5%	
Wednesday						
	Chile	Survey of Economic Expectations				
	Venezuela	Inflation	Set	1.7%		1.8%
	Brasil	Inflation (IPCA)	Set	6.17%	6.26%	
Thursday						
	Chile	Meeting of Monetary Policy	Oct	8.25%		8.50% to 8.75%
	Mexico	Inflation	Sep	.58%	.67%	.74%
	Perú		Oct	6.5%		6,50%
Friday						
	Colombia	Car Sales	Sep	17540		

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	7.5	8.4	9.1	8.8	8.6	9.0	Aug	8.0	2 Q 08	9.2	Jul	31.2	Jul	52.7	Jul	1001	Jul
Brazil	6.1	5.9	6.2	5.6	5.4	6.2	Aug	7.6	Jul	4.7	Jul	11.0	Jul	41.4	Aug	2762	Aug
Chile	4.3	3.3	4.0	3.9		9.3	Aug	8.2	Aug	-3.8	Aug	-4.0	Aug	22.0	Aug	17780	Aug
Colombia	3.7	4.5	8.0	6.5	8.0	7.6	Sep	11.4	Aug	0.7	Jul	4.8	Jul	44.2	Jul	562	Jul
Mexico	2.8	2.6	4.2	3.4	2.6	5.6	Aug	3.6	jun	-0.2	Jul	1.6	Jun	16	jun	-2243	Aug
Peru	10.9	9.7	9.8	8.8	8.6	6.2	set	8.4	set	7.5	jul	n.d.		13.8	Jul	0.3	Jul
Venezuela	7.1	4.9	8.5	8.6	7.6	34.5	Aug	7.1	Aug	-2.5	Jun	41.7	Jun	76.2	jun	18597	jun

Sources: Bloomberg, Reuter, and BBVA staff estimates.