



# Weekly Observatory

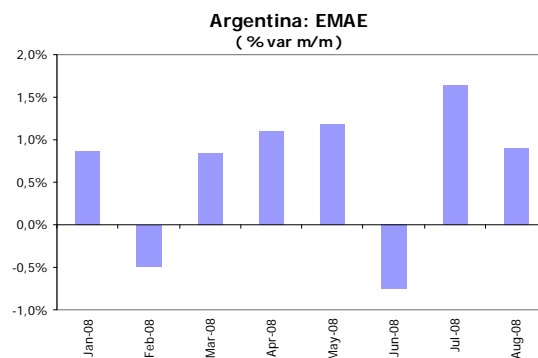
October 24th, 2008

## Weekly Highlights (October 17th – 24th, 2008)

Financial markets maintained a bearish tone, this time aggravated by the government plan to shut down the private pension system in Argentina. The decision had a devastating effect in the Argentinean market, materialized through country risk surges, falls in equity markets, exchange rate tensions, and lower market turnover in both equity and bond markets. Thus, some contagion effect, albeit mild, has spread through the rest of the region. Central Banks have continued their interventions in FX markets (Brazil, Mexico, Peru and Argentina). In addition to these measures, the Central Bank of Peru lowered for the second time local and foreign currency reserve requirements and Brazil reduced its tax on financial transactions levied upon foreign capital.

### 1. Argentina

- The Argentine Government has sent a law to Congress proposing the elimination of the **private pension system** (AFJP as they are known in Argentina) which would result in a unified pay-as-you-go system. If the bill is approved by the Congress, the funds that have been accumulated in individual capitalization accounts (nearly USD 30 billion) would be transferred to the national social security administration (ANSES) who will be responsible for paying all pensions in the future. The market reacted negatively after the announcement, with strong falls in equity and bond prices, although stock markets recovered slightly the following day.
- The August **Monthly Economic Estimator** (EMAE) increased 0.9% m/m (6.4% y/y). This performance suggests that so far in the third quarter the economy continued to grow at similar rates to the previous quarter (nearly 2% q/q in seasonally terms).



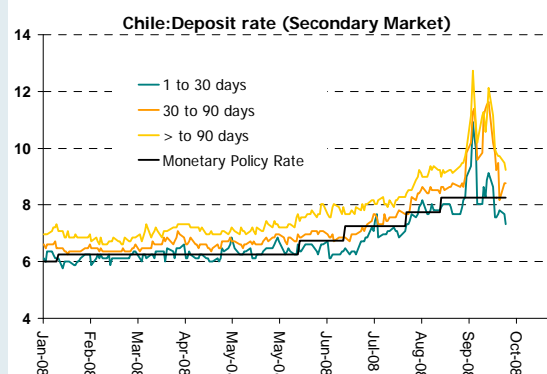
### 2. Brazil

- The total credit expanded** 3.3% in September in comparison to August and 34% in comparison to September of 2007. Total credit as a share of GDP is now at 39.1% (38% last month). Unemployment in September remained constant in comparison to last month at 7.6%. The current account deficit in September reached 1.64% of the GDP (1.45% in August). In all, these data display a pre-crisis picture. On the other hand, consumer confidence fell from 112.7 in September to 101.4 in October, indicating a deterioration of economic perspectives.
- The Brazilian Real dropped** 8.2 % this week despite Central Bank's interventions in foreign exchange markets. The BOVESPA index declined 7.1%. During this week the government announced more measures to fight the liquidity problems, including auctions to provide dollar to the export sector, the authorization to public banks to buy other banks and real estate companies' assets and the reduction of taxes over foreign loans.



### 3. Chile

- Deposit interest rates in the secondary market have decreased considerably** from the high levels observed a couple of weeks ago. In fact, the current difference between these and the Monetary Policy Rate is similar to the one observed during all year and before the current episode of tensions in external markets.
- We forecast that industrial production grew in september by 3,1%**, positively affected by 3 more workdays than in the same month of last year. **Employment will continue showing strength** (4% y/y), while the unemployment rate will decrease again to 8,1%.



#### 4. Colombia

- In August real industrial production fell -8,80% y/y, continuing the downward trend of the last months. Real retail sales decrease -0,73% y/y, below market expectations. These results confirm a slower pace in the economy.
- Exports increase 27,6% in August y/y, mainly driven by a raise in the value of petroleum exportations (116,6%).
- During August, construction permits decreased 23,7% y/y, confirming the slower pace in sector activity for next year.

#### 5. Mexico

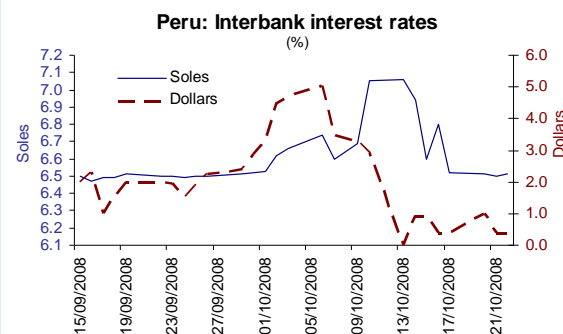
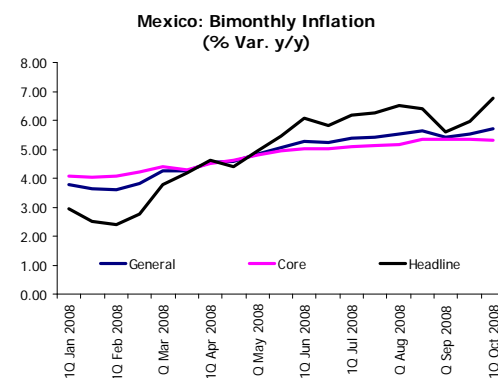
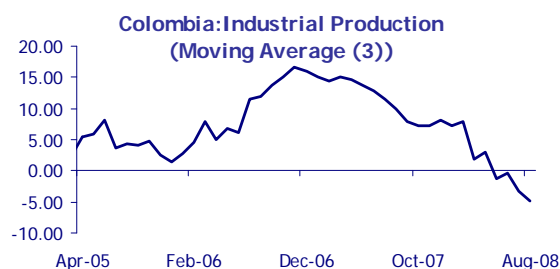
- General Inflation grew 0.49% in the first half of October above market consensus (0.34%); inter-annual inflation reached 5.7% (5.47% prev.). Core inflation was 0.15% (0.19% consensus), which implied an inter-annual change of 5.32% (vs. 5.36% previous). In the core index, food prices began to moderate as expected. Within the non-core index, energy prices generated upward pressures.

#### 6. Peru

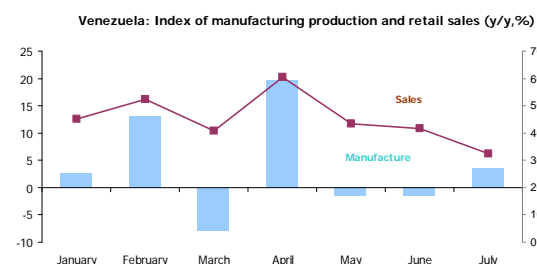
- The Central Bank eased reserve requirements, in both local and foreign currency. It must be said that the banking system maintains high liquidity levels, reflected by interbank interest rates around 6,5% for soles (policy interest rate policy level) and around 0,5% for dollars. In this sense, these measures have a preventive character and aim at assuring a normal credit flow.

#### 7. Venezuela

- Retail sale index increased 0,5% m/m in July. On y/y basis Retail index registered the lowest rate during last 26 months (32,3%). Also, General Sale Index decelerated marking 31,9% y/y, 117 bp lower than June growth of rate.
- In July, Manufacturing Production Index, announced by Central Bank of Venezuela, rose 4,7% m/m. On y/y basis, this index grew 3,6%, showing a slight recover with respect to previous months.



Source: BCRP



## The latest from markets

## Bond and Money markets

Market	End	Weekly Var.	Yearly Var. Bp	Prev. 2008	Dec
<b>Argentina</b>					
Tasa pasivos BC 7 días	12.25	0	400	---	
Badlar	17.06	106	594	16.00	
<b>Brazil</b>					
Oficial rate	13.75	0	250	14.50	
Andima Bono 1 year	14.61	6	313	---	
<b>Chile</b>					
Oficial rate	8.25	0	250	8.75	
Swap CLP	7.97	-26	190	---	
Tipo 10 year	6.73	17	371	---	
<b>Colombia</b>					
Oficial rate (BR)	10.00	0	75	10.18	
DTF	10.03	18	134	---	
TES jul-2020	13.30	53	302	---	
<b>Mexico</b>					
Oficial rate (Tasa de fondeo bancaria)	8.25	0	80	8.25	
3 months rate	8.20	12	79	8.30	
10 years rate	10.39	126	252	8.75	
<b>Perú</b>					
Oficial rate	6,50	0	150	6,75	
Tipo 10 year*	9,47	62	320	---	
<b>Venezuela</b>					
Overnight-interbancaria (diaria)	6.7	230.0	212.5	9.7	
CD 28d (oficial)	13.0	0.0	3.0	13.5	
DPF 90d	17.0	-26.0	504.0	18.0	

## Foreign exchange market

All currencies continued to depreciate against the dollar, dragged by risk aversion and contagion from the financial crisis, and despite central bank interventions in currency markets. The Mexican peso and the Brazilian real depreciated over 9% and 8%, respectively.

Exchange Rate	End	Weekly Var. %	Yearly Var. %	Prev. Dec 2008
<b>America</b>				
Argentina (peso-dollar)	3.24	1.1	2.3	3.10
Brazil (Real-dollar)	2.27	8.2	27.8	1.73
Colombia (Peso-dollar)	2363.15	4.4	18.0	1920.1
Chile (Peso-dollar)	651.95	6.1	31.3	504.0
México (Peso-dollar)	13.83	9.2	28.7	10.53
Peru (New sol-dollar)	3.10	1.3	2.7	2.80
Venezuela (Bolívar-dollar)	2147.30	--	0.0	2.15
dollar-Euro	1.26	-6.3	-12.4	1.40

### Emerging Spreads

Strong growth in emerging spread over 200 bp on average. The announcement of the nationalization of private pension funds in Argentina increased its country risk by more than 500 bps. The rest of countries faced some contagion effect from this measure, although increases in risk proxies have been much more limited.

EMBI+ sovereign spreads	End	weekly chg. Bps	Annual chg bps
EMBI+	857	228	653
EMBI + Latin America	895	231	671
Argentina	1878	514	1491
Brazil	688	206	511
Colombia	741	220	574
Chile*	374	54	263
México	604	176	489
Perú	653	154	500
Venezuela	1804	343	1414
EMBI+ Asia	814	285	628
EMBI+ Europe	806	198	636

### Commodity Markets

Commodity prices continued to drop strongly due to more negative perspectives regarding economic growth in developed and developing countries. Cuts in metals and oil (OPEC announced a 1.5 million barrels a day cut today) are being outweighed by the deterioration of demand forecasts.

Commodities	End	Weekly Var. %	Yearly Var. %	Forecast Dec 2008
Brent (\$/b)	64.5	-7.4	-27.3	104.8
Gold (\$/onza)	697	-11.1	-11.3	875
Copper (c/lb)	184	-16.5	-48.6	2.1
Soy (c/bush)	821	-3.4	-11.6	1034
Coffee (c/lb)	131	1.9	-1.3	146
Corn (c/bush)	388	-3.7	8.8	623.0
Goldman-Sachs Index	369	-4.0	-16.8	---
CRB Index	601	8.7	-8.4	---

## The week ahead

Day	Country	Indicator	Period	Last	Mkt Forecast	BBVA
<b>Monday</b>						
	Venezuela	Unemployment	sep-08	August: 7.1%		September 7.0%
<b>Tuesday</b>						
	Venezuela	Credit, Deposit	39692	August: Credit 2.1%; Deposit 0,6%		
<b>Wednesday</b>						
	Argentina	Supermarkets Sales Survey	Sep´08	36,4% y/y		
	Brasil	SELIC-Central Bank	Oct	13.75%	13.75%	
	México	IGAE	Aug	2.8%	1%	1.6%
<b>Thursday</b>						
	Chile	Unemployment	Sept	8.2%		8.2%
	Chile	Employment	Sept	4.0%		4.0%
	Chile	Industrial Production	Sept	-3.1%		3.2%
	Chile	Mining Production	Sept	-3.8%		-8.0%
	Chile	Retail Sales Index	Sept	12.7%		
	Brasil	Net Debt % GDP	Sep	40.5%		
	Argentina	Construction	Sep´08	- 2,1% y/y	0.28	.34
<b>Friday</b>						
	Argentina	Public Services Survey	Sep´08	9,3% a/a		4,8% y/y
	Perú	Central Government Operation	Sep	-1,3 mM S/.		
	Colombia	Unemployment	Sep	11.4%	11.5%	11.8%
	Colombia	Trade Balance	Aug	\$562.50	150	
	Colombia	CPI(MoM)*	Oct	-0.2%	0.02%	-0.04%
	Colombia	CPI(YoY)*	Oct	7.6%	7.6%	7.5%

## Macroeconomic Indicators

		GDP (y/y)				Inflation		Unemployment		Industrial Prod.		Sales		Exports		Trade Balance	
	2Q 08	1Q 08	4Q 07	3Q 07	2Q 07	y/y		(% active pop.)		y/y		y/y		y/y		m USD	
Argentina	7.5	8.2	9.1	8.8	8.6	8.7	Sep	8.0	2 T 08	4.2	ago	36.4	ago	50.4	ago	2245	ago
Brazil	6.1	5.9	6.2	5.6	5.4	6.3	sep	7.6	sep	4.7	ago	9.8	ago	41.4	sep	2762.0	sep
Chile	4.3	3.3	4.0	3.9		9.2	sep	8.2	Ago	-3.1	Ago	-4.0	Ago	1.0	sep	16107	sep
Colombia	3.7	4.5	8.0	6.5	8.0	7.57	sep	11.4	ago	-8.8	Ago	-0.7	Ago	27.6	Ago	562	jul
Mexico	2.8	2.6	4.2	3.4	2.6	5.47	sep	3.6	jun	-0.2	jul	1.6	jun	16.0	jun	-2680	Sep
Peru	10.9	9.7	9.8	8.8	8.6	6.20	sep	8.4	ago	5.6	ago	n.d.		25.0	ago	480	ago
Venezuela	7.1	4.9	8.5	8.6	7.6	36.1	sep	7.1	ago	3.6	Jul	32.3	Jul	76.2	jun	18,597	jun

Sources: Bloomberg, Reuter, and BBVA staff estimates.