



# Weekly Observatory

October 31th, 2008

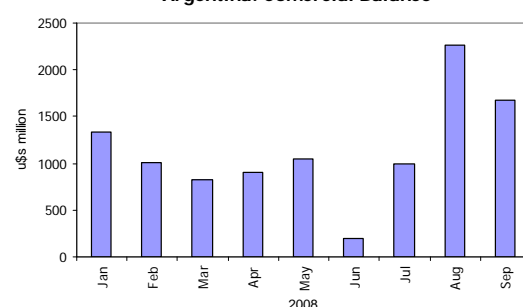
## Weekly Highlights (October 24th – 31th, 2008)

Very favourable performance of financial proxies in the region: the week registers a significant reduction of country risk, sharp appreciation of the Mexican peso and the Brazilian real, and a broad increase of stock indexes. The recovery is partly explained by domestic measures (cut of reserve requirements in Colombia and Brazil, extension of deadlines for repo transactions to 6 months and the creation of a new liquidity window in Peru, or the authorization to the Central Bank of Brazil to buy a portfolio in USD to banks). But it is also grounded on the FED announcement to set up swap lines worth USD 30 bln to provide liquidity to Brazil and Mexico, and on the IMF plan to speed up the concession of loans to countries with sound macroeconomic standings but liquidity problems (most Latin American nations would satisfy these two requirements). Regarding monetary policy, Brazil and Colombia maintained stable their reference rates.

### 1. Argentina

- The **September external trade** figure does not show the impact of international turmoil. Export sales reached u\$s 6980 millions (45% y/y), whereas imports increased to u\$s 5311 millions (34% y/y), resulting in a trade surplus of u\$s 1669 million, the second highest of the year. The trade surplus could be higher than our forecast of USD 11300 million since imports could suffer a considerable slow down in the fourth quarter due to the impact of the international crisis.
- The **Industrial Monthly Estimator (EMI)** of September increased 1.5% m/m (5.8% y/y). This behavior is mostly explained by growth in car production and building materials. The figure is in line with expectations. Our annual forecast (5.5% y/y) considers a slow down in the last quarter of the year.

Argentina: Comercial Balance



### 2. Brazil

- "Considering the prospective scenario and the balance of risks for inflation, in an environment of higher uncertainty" the **Brazilian Central Bank decided to keep interest rates at 13.75%**. Before the announcement of this decision, analysts were divided between those that expected the Central Bank to keep the rate at 13.75%, in light with greater concern about lower growth expectations and liquidity problems; and those that expected the Central Bank to raise interest rates to fight the still increasing inflation (currently at 6.25%), and to prevent additional capital outflows.
- Financial markets in Brazil displayed a more positive week.** The real is currently at 2.11, a 9% appreciation since the end of last week. Besides daily interventions in the foreign exchange markets, the real appreciation was also influenced by the FED plan that will give access to Brazil to a swap line worth USD 30 billions. During this period, the IBOVESPA index increased 19%.

Brazil exchange rate (real-\$)

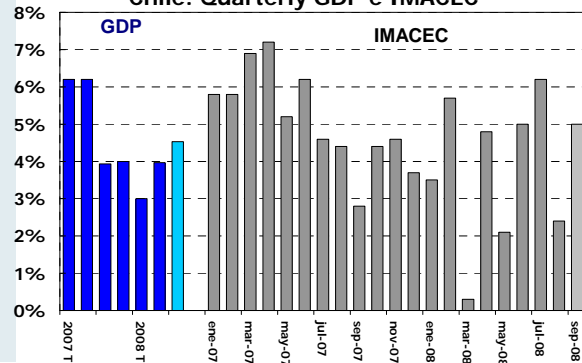


Fuente: Bloomberg

### 3. Chile

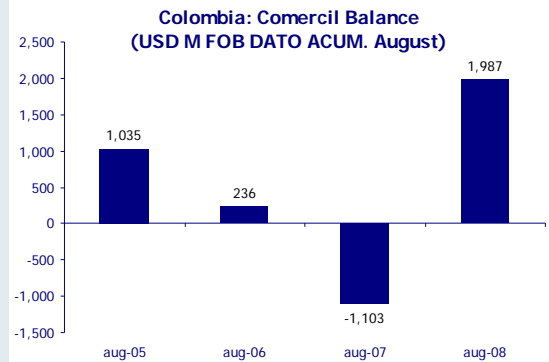
- Despite the strong employment expansion continues in September, **consumption indicators** such as supermarket sales and retail sales show that the slowdown in consumption is continuing. Industrial production showed a moderate recovery. However, our growth forecast for September is 5.0% y / y.
- We project an **inflation rate** of 0.5% m / m for October, representing a decrease from previous months mainly explained by lower rises in energy and services.

Chile: Quarterly GDP e IMACEC



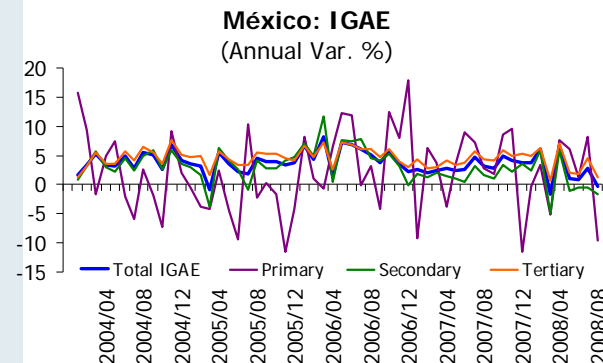
#### 4. Colombia

- The **balance surplus** for August was USD109,5 millions which represents USD 1987 millions year to August, compared to a deficit of USD 1103 millions.
- The **Board of Governors of the Central Bank kept unchanged its intervention rate** at 10,0% as the market expected. They announced a reduction in deposit requirements, end the auctioned “bidding remunerated deposits”, the use of repos for 14 and 30 days and buy of TES to prevent illiquidity in the market.



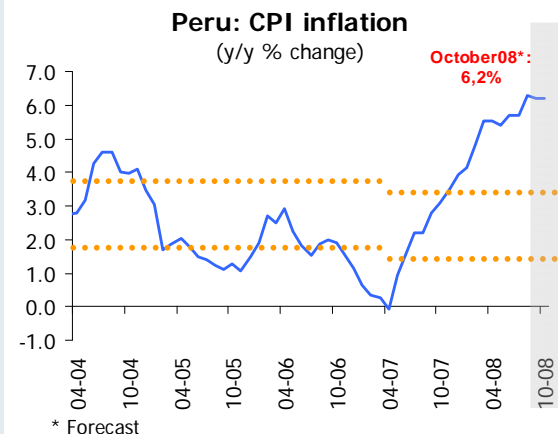
#### 5. Mexico

- **Bank of Mexico published its Third Quarterly Report on Inflation** in which estimates a GDP growth for 2009 between 0.5 to 1.5% (Ministry of Finance estimates 1.8%). Banxico recognizes that the crisis in the USA could be prolonged where its growth could be between 0 to 0.5%. The Banxico's inflation outlook does not change with respect to the previously published (July 2008).
- The **IGAE of August was negative**, (-)0.3% in annual rate, services grew 1.2%, and industry decreased on August by fourth consecutive month (-)1.6%.



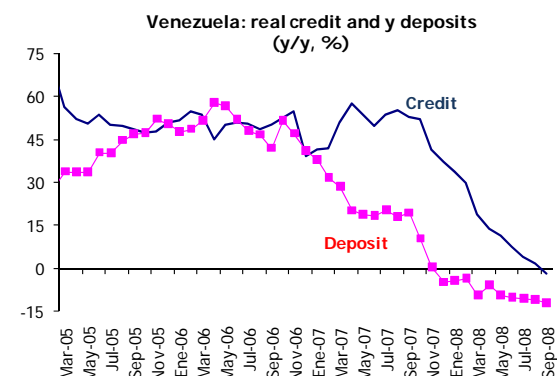
#### 6. Peru

- **Inflation.** We expect consumption prices in October to have increased around 0,3% m/m, so that y/y inflation reached 6,21% (6,22% in September). In October, core inflation would still reflect the transmission from previous' months price increases in certain goods, such as food. In addition, inflation would reflect the local currency depreciation, as some goods are price in US dollars.



#### 7. Venezuela

- In September, **gross nominal credit** grew 2,7% m/m, whereas the rate of growth on a y/y basis was 33,7%. By eleven consecutive months the banking credit figure has slowed down. It also showed its first negative real y/y rate of growth during the last 55 months (-1.8%). The banking system continues showing an increasing allocation toward consumer credit, whose share augmented 291 bp during last year reaching 25,3%. **Total nominal deposits** keep a stable growth, marking 3,4% and 25,3% on m/m and y/y basis, respectively.



## The latest from markets

## Bond and Money markets

Market	End	Weekly Var.	Yearly Var. Bp	Prev. Dec 2008
<b>Argentina</b>				
Tasa pasivos BC 7 días	12.25	0	400	---
Badlar	14.44	-263	238	16.00
<b>Brazil</b>				
Oficial rate	13.75	0	250	14.50
Andima Bono 1 year	15.72	111	437	---
<b>Chile</b>				
Oficial rate	8.25	0	250	8.75
Swap CLP	8.33	36	227	---
Tipo 10 year	6.75	2	384	---
<b>Colombia</b>				
Oficial rate (BR)	10.00	0	75	10.18
DTF	10.20	17	136	---
TES jul-2020	13.09	-30	299	---
<b>Mexico</b>				
Oficial rate (Tasa de fondeo bancaria)	8.25	0	77	8.25
3 months rate	7.95	-31	37	8.30
10 years rate	9.17	-147	124	8.75
<b>Perú</b>				
Oficial rate	6,50	0	150	6,5
Tipo 10 year*	9,91	29	371	---
<b>Venezuela</b>				
Overnight-interbancaria (diaria)	0.9	-330.0	-960.9	9.7
CD 28d (oficial)	13.0	0.0	3.0	13.5
DPF 90d	17.0	0.0	576.0	18.0

## Foreign exchange market

Important appreciations of both the Mexican peso and especially the Brazilian real, after market interventions and the FED announcement to provide a swap line to both countries.

Exchange Rate	End	Weekly Var. %	Yearly Var. %	Prev. Dec 2008
<b>America</b>				
Argentina (peso-dollar)	3.37	2.9	7.8	3.10
Brazil (Real-dollar)	2.11	-9.1	20.2	1.73
Colombia (Peso-dollar)	2376.41	-0.1	18.1	1920.1
Chile (Peso-dollar)	671.85	0.2	35.0	504.0
México (Peso-dollar)	12.79	-4.5	19.7	10.53
Peru (New sol-dollar)	3.09	-0.4	3.2	2.80
Venezuela (Bolívar-dollar)	2147.30	--	0.0	2.15
dollar-Euro	1.27	0.5	-12.2	1.40

## Emerging Spreads

Sovereign spreads register a significant reduction during the week, intensified after the FED announcement to provide a swap line to Brazil and Mexico, among other non-Latin countries. Country risk in Argentina keeps deteriorating.

EMBI+ sovereign spreads	End	weekly chg. Bps	Annual chg bps
EMBI+	670	-195	474
EMBI + Latin America	701	-176	488
Argentina	1892	49	1551
Brazil	488	-179	314
Colombia	569	-141	411
Chile*	367	-17	254
México	371	-224	264
Perú	551	-94	406
Venezuela	1524	-219	1154
EMBI+ Asia	536	-314	352
EMBI+ Europe	670	-182	502

## Commodity Markets

The relative optimism displayed by global markets this week, as well as the perception that prices had fallen too much helped to drive agricultural and metal prices up. Oil price recovered in the middle of the week (reaching USD 70) but receded again due to renewed concerns about demand.

Commodities	End	Weekly Var. %	Yearly Var. %	Forecast Dec 2008
Brent (\$/b)	60.9	-1.9	-33.9	84.5
Gold (\$/onza)	729	-0.8	-9.7	800
Copper (c/lb)	190	10.8	-43.6	2.1
Soy (c/bush)	821	-3.4	-11.6	1034
Coffee (c/lb)	131	1.9	-1.3	122
Corn (c/bush)	402	7.8	7.1	481.4
Goldman-Sachs Index	369	-4.0	-16.8	---
CRB Index	601	8.7	-8.4	---

## Stock Markets

The approval of an IMF short-term liquidity program for emerging economies helps Latin American stock markets to recover, with the exception of Venezuela

Stock Exchange	End	Weekly Var. %	Yearly Var. %
<b>The Americas</b>			
S&P 500	954	8.8	-36.8
Nasdaq 100	1699	9.4	-39.6
Argentina (Merval)	974	9.4	-58.3
Brazil (Bovespa)	37449	19.0	-41.5
Colombia (Ind. General)	7179	7.6	-32.8
Chile (IGPA)	11786	4.7	-22.0
México (IPC)	20207	19.0	-34.4
Perú (General Lima)	6801	6.6	-68.1
Venezuela (IBC)	35927	-1.8	-7.6
<b>USA</b>			
S&P 500	954	8.8	-36.8
Nasdaq 100	1699	9.4	-39.6
<b>Europe</b>			
London (FTSE)	4238	9.1	-35.1
EuroStoxx50	2257	6.5	-40.3
Ibex35	8756	4.8	-44.7
Estambul-100	26472	9.5	-53.4
<b>Asia</b>			
Nikkei	8577	12.1	-48.1
China	1729	-6.0	-70.1

## The week ahead

Day	Country	Indicator	Period	Last	Mkt Forecast	BBVA
<b>Monday</b>						
	Chile	Exports	Oct.	-0.80%		
	Chile	Imports	Oct.	49.2%		
	Mexico	Manuf IMEF	Oct.	49.5		
	Peru	CPI	Oct	0,57% m/m		0,3% m/m
	Peru			6,22% y/y		6,21% y/y
	Venezuela	Unemployment	01-sep	August: 7.1%		September 7.0%
<b>Tuesday</b>						
	Colombia	PPI(MoM)	Oct	1.7%		
	Brazil	Industrial Production	sep	2.0%		
<b>Wednesday</b>						
	Chile	CPI	Oct	1.1% m/m; 9,2% a/a		0.5% m/m; 9,4% a/a
	Chile	IMACEC	Sept	2.4%		4.5%
	México	Consumer Confidence	Oct.	88.6	86.7	85.84
<b>Thursday</b>						
	Chile	Monetary Policy Meeting Minutes	Oct			
	Brazil	Monetary Policy Meeting Minutes				
<b>Friday</b>						
	Chile	Exports	Oct			
	Chile	Imports	Oct			
	Chile	Economic Expectation Survey	Nov			
	Colombia	Monetary Policy Meeting Minutes	Oct			
	México	Inflation	Oct.	.68	.61	.70
	Brazil	Inflation IPCA	oct	6.3%	6.46%	
	Perú	Commercial Balance	Sept	475 M\$		

## 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 Q 08	5.8	Sep	36.4	aug	45.0	Sep	1669	Sep	
Brazil	6.1	5.9	6.2	5.6	5.4	6.3	sep	7.6	sep	4.7	ago	9.8	aug	41.4	sep	2762.0	sep	
Chile	4.3	3.3	4.0	3.9		9.2	sep	7.8	sept.	3.2	sept.	2.6	sept.	-0.8	sept.	16107	sep	
Colombia	3.7	4.5	8.0	6.5	8.0	7.57	sep	11.4	aug	-8.8	Ago	-0.7	aug	27.6	aug	110	aug	
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	aug	5.6	ago	n.d.		25.0	aug	480	aug	
Venezuela	7.1	4.9	8.5	8.6	7.6	36.1	sep	7.1	aug	3.6	Jul	32.3	Jul	76.2	jun	18,597	jun	

Sources: Bloomberg, Reuter, and BBVA staff estimates.