



Weekly Observatory

May 10th, 2010

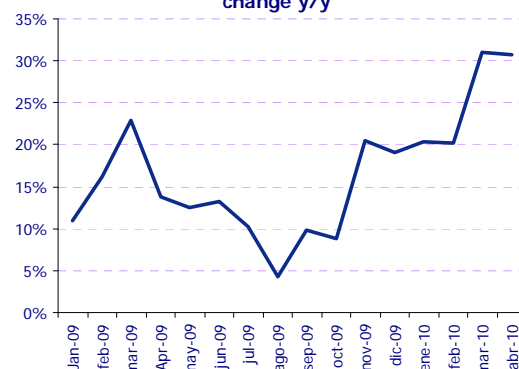
Weekly Highlights (3rd May – 7th May 2010)

The Central Bank of Peru surprised the markets by raising its policy rate by 25bps to 1.50% in a “preventive move”. Prices remain under control in Chile and Mexico. The turbulences in international markets had a clear and strong impact in the region. Argentina formalized a plan to the exchange of defaulted debt and, therefore, to normalize its relations with financial markets.

1. Argentina

- The offer to exchange defaulted debt was formalized on May 5. It is very probably that the acceptance rate will be high despite the market volatility caused by the Greek crisis which reduced the value of the offer. For the same reason, the placement of the new global bond 2017 may be complicated if the government persists in its objective of achieving a yield of less than one digit.
- Tax collection of March amounted to \$ 30.1 billion, an increase of 30.7% over the same month last year. The figure was within consensus expectations. For the next two months we expect a substantially higher level of tax collection because of annual maturities of Income tax.

Argentina: Tax Collection
change y/y

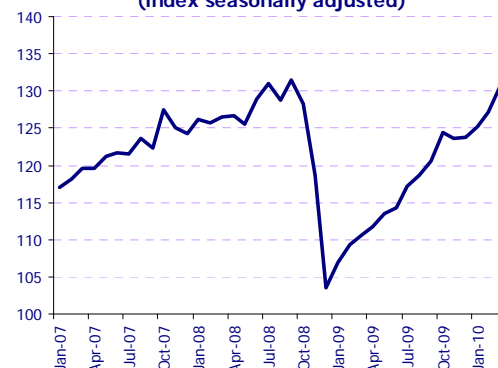


Source: AFIP

2. Brazil

- Financial markets were strongly hit in the last days by turbulences in International markets. The real depreciated more than 7% this week, the IBOVESPA lost around 6% and the country-risk measured by the EMBI + increased by 27%. The Central Bank admitted explicitly in the minutes of the meeting held last week that the next decisions regarding monetary policies will take in account the development of the situation in Europe.
- Industrial production in March surprised to the upside (2.8% m/m; 19.8% y/y) and reinforced the view that the economic activity accelerated in the first quarter. Auto sales dropped 21% m/m at some extent due to the withdrawal of fiscal incentives but continued at high levels (18.5% y/y).
- Inflation rose by the sixth month in a row to 5.3% a/a (0.6% m/m) in April, well above the 4.5% goal for this year.

Brazil: Industrial Production
(index seasonally adjusted)

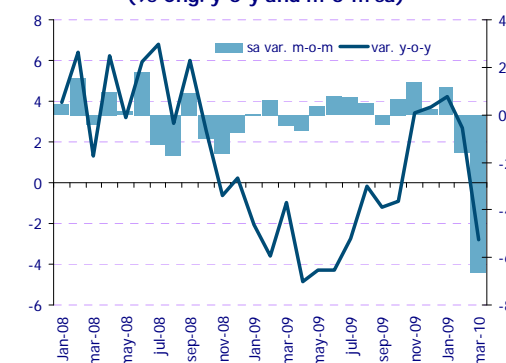


Source: IBGE

3. Chile

- The Imacec fell 2.8% y-o-y in March, reflecting the economic impact of the earthquake. The figure is lower than expected by the market and was negatively influenced by the natural resources sector and industry, while retail trade and communications showed gains.
- Unemployment was 9.0% in the January-March mobile quarter. It is important to highlight the new conceptual design and methodological change in the survey, changing the way we measure unemployment and labor force, in line with OECD standards.
- Inflation in April was in line with market expectations (0.5%).

Chile: Imacec
(% Chg. y-o-y and m-o-m sa)



Source: CBCh

4. Colombia

- Exports grew 19.4% in March, boosted by an increase in oil sales and its international price. When seasonally adjusted, non traditional exports completed 5 months of expansion mom and for the first time since march of 2009 they ceased to fall year over year
- In April inflation was 0.5% mom, which led to an increase from 1.8% in March to 2.0% in the yoy variation. Tradable goods prices continue to present negative variations reflecting the exchange rate appreciation process. Regulated goods prices, on the other hand, continue to rise as a consequence of the increase in fuel prices

5. Mexico

- Positive first clue on 2Q10 soft data. In April IMEF manufacturing index kept expanding by rising from 53.7pts to 54.6pts, upward trend coherent with ISM manufacturing index, the equivalent indicator in the US. Production and employment were the most dynamic indicators, a positive signal of support to the expected domestic demand improvement.. Consumer Confidence improved 1.1% in April and reached 81.8pts (80.9 March), still well below its pre-crisis levels. The sub-indexes show that consumers perceive an improvement in their household situation and expect it to continue for the next 12 months, however they remain cautious about the country's situation and doubtful about consuming durable goods. Next week it will be released Industrial Production as of March –estimated: 0.9% m/m- and 1Q10 unemployment rate –estimated: 5.4% vs 5,6% registered in 4Q09-.

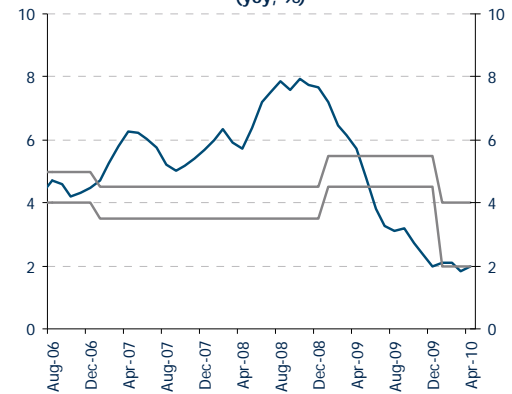
6. Peru

- The consumer price index rose 0,03% m/m (0,8%y/y) in April. This result was lower than the 1Q10 monthly average inflation rate (0,3%) and continued to reflect the evolution of specific factors. Core inflation, on the other hand, reached 1,9%y/y, in line with the Central Bank's inflation target (2%, +/-1pp).
- Leading indicators point to a continued acceleration of economic activity. Domestic cement consumption grew by 25,2%y/y in March (15,9% in February), while electricity production in April increased 8,5%y/y (8,3% in March).
- The Central Bank surprisingly raised its policy rate (+25bp), leaving it at 1,50%. According to the press release, this is a preventive move: Even though there are currently no inflationary pressures, indicators clearly suggest that the economy is evolving favorably, allowing a reduction of the monetary stimulus. In addition, the Central Bank says that this decision does not necessarily imply that the cycle of policy rate increases has begun because this will depend on the assessment of inflation determinants.

7. Venezuela

- Figures from automotive sector show a production drop. The car production in the first four-month period of the year (34,553) decreased 24.2% with respect the same period of 2009.
- President brings forward the 15% increase in the minimum wage. Initially planned to September, the increase of minimum wage will come into effect since May 1st. Thus, the minimum wage climbs to BsF 1,224 (USD 284.6). This measure would put pressures on inflation.

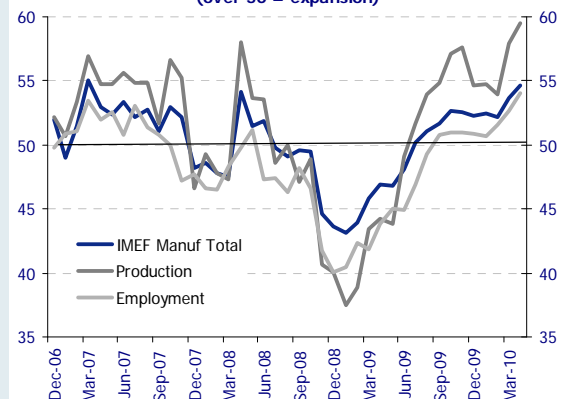
Colombia: Inflation
(yoy, %)



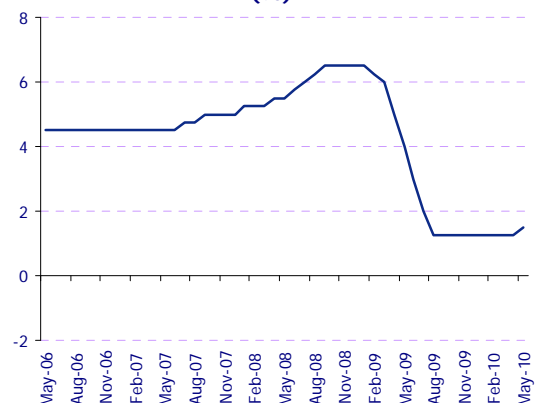
Source: Banco de la República y DANE

BBVA RESEARCH

Mexico: IMEF manufacturing index & Components
(over 50 = expansion)

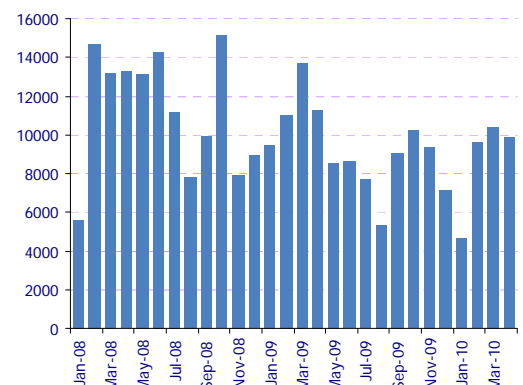


Peru: Reference Interest Rate
(%)



Source: BCR

Venezuela: Monthly Vehicules Sales



The latest from markets

Bond and Money markets

Market	End	Weekly Var.	Yearly Var. Bp	Forecast. Dec 2010
Argentina				
7 day Central Bank rate	9.00	0	-150	---
Badlar rate	8.81	-44	-550	16.00
Brazil				
Official Rate	9.50	0	-75	10.25
Andima 1 year bond	11.75	1	61	---
Chile				
Official rate	0.50	0	-125	2.00
Swap CLP	1.44	12	-408	---
10 year rate	6.45	7	98	---
Colombia				
Official Rate (BR)	3.00	0	-400	4.25
DTF	4.00	11	-562	---
TES jul-2020	8.24	-10	-162	---
Mexico				
Official Rate (fondeo)	4.50	0	-150	4.50
3 months rate	4.62	1	-81	---
10 years rate	7.52	12	-8	---
Peru				
Tipo oficial	1.50	0	-250	2.00
Tipo 10 años*	6.08	7	68	0.00
Venezuela				
Overnight-interbancaria (diaria)	0.54	5	34	6.50
CD 28d (oficial)	6.00	0	-800	6.00
DPF 90d	15.67	-32	-43	13.50

Foreign exchange market

Regional currencies did not resist to the increase in global aversion and lost significantly in comparison to the US dollar.

Exchange Rate	End	Weekly Var. %	Yearly Var. %	Forecast. Dec 2010
America				
Argentina (peso-dollar)	3.90	0.2	4.7	4.16
Brazil (Real-dollar)	1.86	6.7	-10.0	1.76
Colombia (Peso-dollar)	2018	3.1	-8.4	2070
Chile (Peso-dollar)	529	1.9	-6.3	500
Mexico (Peso-dollar)	12.97	5.3	-0.5	12.70
Peru (New sol-dollar)	2.85	0.3	-3.2	2.85
Venezuela (Bolívar-dollar)	2.60-4.30	-	-	2.60-4.30
dollar-Euro	1.27	-4.2	-6.6	1.22

Emerging Spreads

Generalized increase of emerging spreads this week in tone with global markets.

EMBI+ sovereign spreads	End	weekly chg. Bps	Annual chg bps
EMBI+	332	71.7	-152
EMBI + Latin America	380	73.4	-156
Argentina	786	133.8	-659
Brazil	248	57.9	-66
Colombia	250	66.7	-69
Chile*	134	20.3	-138
Mexico	215	64.4	-50
Peru	219	55.0	-67
Venezuela	1053	160.8	-123
EMBI+ Asia	256	63.3	-117
EMBI+ Europe	281	74.5	-149

Commodity Markets

Commodity prices reacted negatively to the deterioration of the financial markets conditions. The oil price dropped 8% and is back to the USD 80 level. Agricultural commodities showed more resilience than other commodities to turbulences in financial markets.

Commodities	End	Weekly Var. %	Yearly Var. %	Forecast Dec 2010
Brent (US\$/Bbl)	80.2	-8.2	-1.6	74
Gold (US\$/Troy oz)	10	-5.1	-3.3	---
Copper (US\$/t)	6948	-6.5	-7.8	5181
Soybean (US\$/t)	334	-4.3	-7.0	330
Corn (US\$/t)	128	-0.9	-13.1	172
Goldman-Sachs Index	509	-8.0	26.8	---
CRB Index	465	-3.6	17.0	---

Stock Markets

Stock markets displayed one more week of strong corrections to the downside in consequence of increasing concerns with the situation in Europe.

Stock Exchange	End	Weekly Var. %	Yearly Var. %
The Americas			
Argentina (Merval)	2162	-9.8	44.1
Brazil (Bovespa)	63414	-6.1	23.4
Colombia (General Index)	11969	-4.3	31.7
Chile (IGPA)	17723	-1.8	29.1
Mexico (IPC)	31399	-3.9	30.4
Peru (Lima General)	14973	-5.5	30.5
Venezuela (IBC)	61292	0.0	38.6
USA			
S&P 500	1128	-4.9	21.4
Nasdaq 100	2320	-5.8	33.4
Europe			
Londres (FTSE)	5216	-6.1	16.9
EuroStoxx50	2377	-6.5	12.6
Ibex35	9339	-11.0	-0.7
Estambul-100	54063	-8.3	64.8
Asia			
Nikkei	10365	-6.3	9.9
China	2688	-6.3	2.4

The week ahead

Day	Country	Indicator	Period	Last/prev	Mkt Forecast	BBVA
Monday						
	Argentina	Terms of trade	1Q10	0,0% y/y		
Tuesday						
	Chile	Survey of economic expectations	May			
Wednesday						
	Argentina	Consumer Price Index	Apr	1,1% m/m		0,9% m/m
	Argentina	Index of wholesale prices	Apr	1,3% m/m		
	Argentina	Cost index of production	Apr	2,4% m/m		
	Brazil	Retail Sales (y/y)	Apr	12.3%		11.8%
	Chile	Precedents of RPM (BCCh)	May			
	Mexico	Industrial production	Mar	4.4	5.5	6.5
Thursday						
	Chile	Monetary Policy meeting (BCCh)	May			
	Colombia	Imports	Apr	10.50%		
Friday						
	Mexico	Occupation and employment	1Q10			
	Peru	Trade Balance	Mar	\$M 798		

Macroeconomic Indicators

	GDP (yoy)					Inflation		Unemployment		Industrial Prod.		Sales		Exports		Trade Balance	
	4Q09	3Q09	2Q09	1Q09	4Q 08	yoy		(% active pop.)		yoy		yoy		yoy		m USD	
Argentina	2.6	-0.3	-0.8	2.0	4.1	9.7	Mar	8.4	4Q09	10.6	Mar	22.9	Feb	10.6	Mar	311	Mar
Brazil	4.3	-1.2	-1.6	-2.1	0.8	5.2	Mar	7.6	Mar	19.7	Feb	12.3	Feb	23.0	Mar	1283	Mar
Chile	2.1	-1.4	-4.5	-2.1	0.7	0.1	Mar	9.0	Feb	-17.4	Mar	-8.9	Mar	31.7	Mar	1365	Mar
Colombia	2.5	-0.2	-0.3	-0.5	-1.0	2.0	Mar	13.4	Feb	3.0	Feb	3.9	Feb	19.4	Feb	233	Feb
Mexico	-2.3	-6.1	-10.0	-7.9	-1.1	5.0	Mar	4.8	Mar	4.4	Feb	2.3	Feb	39.0	Mar	237	Mar
Peru	3.4	-0.6	-1.2	1.9	6.4	0.8	Mar	9.2	Mar	7.2	Feb	n.d.	n.d.	47.2	Feb	798	Feb
Venezuela	-5.8	-4.6	-2.6	0.5	3.5	28.2	Mar	8.7	Mar	-11.6	Dec	19.1	Dec	56.1	Dec	8340	Dec

Sources: Bloomberg, Reuter, and BBVA staff estimates.