



Weekly Observatory

July, 10th, 2009

Weekly Highlights (6th – 10th July, 2009)

Several countries released inflation for June. Brazil, Colombia and Mexico surprised with a lower than expected number. Overall, the absence of price pressures enables the region to extend interest rate easing. This week, Chile and Peru cut rates further, by 25 and 100 bps, respectively.

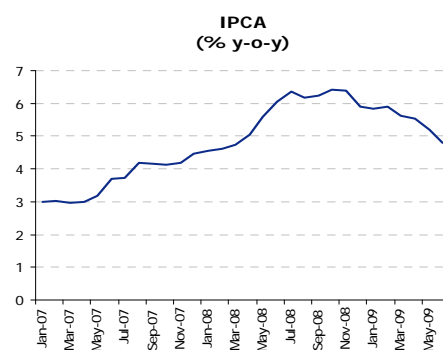
1. Argentina

- The Ministers in the Presidential Cabinet were reshuffled yesterday. Aníbal Fernández will be Cabinet Chief and Amado Boudou would go to the Ministry of Economy from his current position of Head of the state pension agency Anses. He might have a higher profile than the one showed by his predecessor. However, the continuity of the Domestic Trade Secretary Guillermo Moreno suggests that significant changes will not take place.
- With the aim of reducing the chain of contagion of the H1N1 influenza virus, a holiday for the federal administration was decreed next Friday, in addition to the public holiday of July 9. The worsening of the pandemic would have a negative impact on economic activity, which we are now evaluating.
- As expected by the consensus forecast, the tax collection grew 13.3 % on a yoy basis. The export taxes helped sustain tax collection, growing 36 %.



2. Brazil

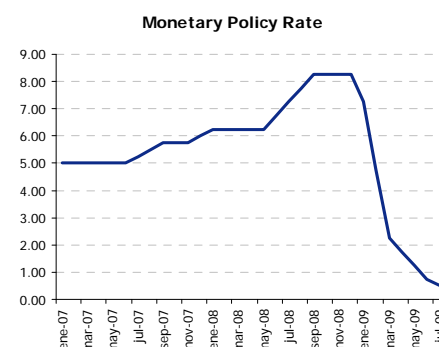
- Brazil's CPI came out at 4.8% in June, slightly below our 5.0% forecast. Domestic inflation is expected to continue falling in coming months until it reaches 4.2% by the end of the year.
- Moody's put Brazilian credit rating on review for increase, as the country "demonstrated resilience to shocks" in the current environment. If Moody's confirms the upward revision Brazil will be promoted to Investment Grade. S&P and Fitch already upgraded the country to Investment Grade last year.
- The government presented a law project to allow the deduction of the investments planned in the PAC (the plan for the acceleration of the growth) from the primary surplus goals (2.5% in 2009 and 3.3% from 2010 on). Currently the government is already allowed to deduct investments up to a 0.5% of the GDP from the surplus goals. If the law is approved the



Source: IBGE

3. Chile

- The monthly economic activity index IMACEC registered a -4.4% variation in May, below our expectations. The seasonally adjusted series decreased 0.1% with respect to April. Nevertheless, trade balance figures for June anticipate a slight recovery at the margin, as exports and imports decreased less than in previous months (-30% and -38%, respectively). Also, June inflation turned out to be above expectations, 0.3% with respect to May. Annual inflation fell below 2%, and is expected to become negative as of September, and to -0.1% by year end.
- The board of the Central Bank of Chile decided to cut the monetary policy rate, by 25 bps. Also, the board announced that non conventional measures will be implemented in order to achieve a greater stimulus, such as reducing the supply of Bank bonds and introducing more liquidity to the financial system.



source: BCCh and BBVA forecast

4. Colombia

- During June, monthly inflation rates fell to -0.06%, below market forecasts (0.14%). This result represents a yoy inflation rate of 3.81%, compared to 4.77% for the previous month.
- Exports fell 27.7% yoy during April, due to a decrease of 38% in oil sales. Trade deficit for the same period was USD 106.4 millions FOB.
- Total credit growth rate increased from 13.6% yoy in April to 13.9% during May, influenced by an increase in commercial loans. Nevertheless, consumption loans continue decelerating (3.05% yoy).

5. Mexico

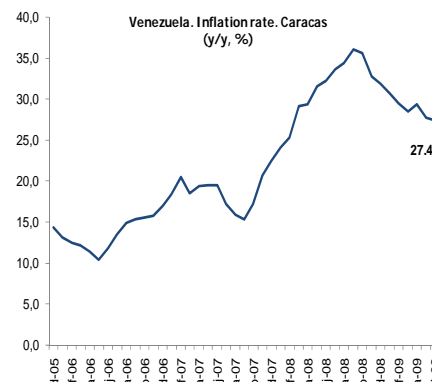
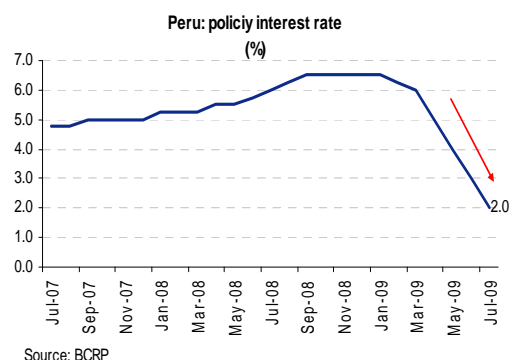
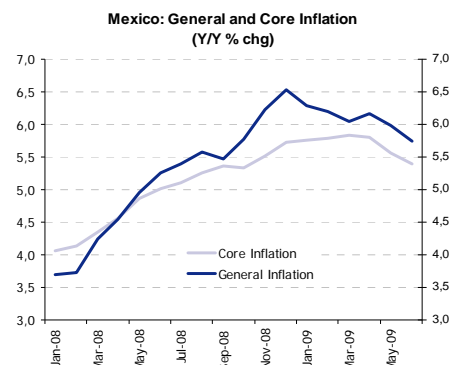
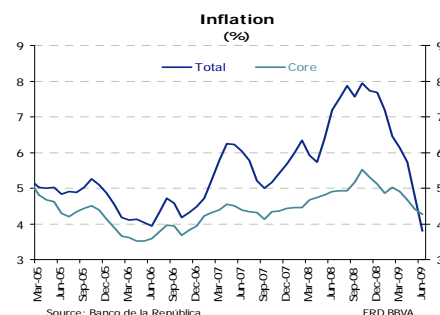
- June's monthly Inflation was 0.18% (vs. 0.23% BBVA estimation); core inflation was 0.28% (vs. 0.30% BBVA). General inflation reached 5.74% in annual terms while core reached 5.39%, the latter with its biggest two-month downwards adjustment since 2001. Administered and concertated prices keep pushing general inflation down because of the public prices frozen early in 2009. We maintain our perspective that inflation will keep falling in 2009. Consumer Confidence soared (4% m/m) in June due to improvements in all its components but specially the perception on the current economic situation of the country (6.6%). Next week we will have more information about the influenza economic impact with the May's Industrial Output release and Banxico probably will finish its easing rates cycle with a 25 bp cut to 4.50%

6. Peru

- On Tuesday, President Alan García announced he will shuffle his cabinet, after confirming the departure of current Cabinet Chief Yehude Simon, who had already said he would step down.
- During the week, the Peruvian Government placed \$1 billion bonds in the international market with a maturity date of 2025 and a 6.95% annual interest rate. The total demand amounted to USD 4,5 billion, 4,5 times the offer. Peru will use proceeds of the bonds sale to repay the bilateral debt owed to the Paris Club.
- Finally, in its monetary policy meeting on Thursday, the Central Bank Board (CB) reduced the policy rate by 100bp, placing it at 2.0%. This decision was based on lower inflationary pressures and further deterioration of economic activity. According to the CB press release, future adjustments will depend on the evolution of key.

7. Venezuela

- In June, inflation marked Caracas' CPI showed a similar rate (2.1% on m/m basis) to May, determining a y/y change of 27.4%. The stability of the inflation was influenced by a low relative price growth of food, the most important group in the basket, which registered the fourth lowest increase (1.0%) among all clusters. Core inflation growth rate, indicator of trend inflation, was 2.7% m/m and 34.6% y/y, in June.
- Petrobonos 2011 issuance did not cover total demand of domestic investors. Official results of PDVSA Petrobonos, bonds issued exclusively to local market (USD 1,400 million), indicate that 17.8% of total demand was placed. The implicit exchange gap involved in this transaction remains close to current swap market one.



The latest from markets

Bond and Money markets

| Market | End | Weekly Var. | Yearly Bp | Var. | Forecast. Dec 2009 |
|-----------------------------|-------|-------------|-----------|------|--------------------|
| Argentina | | | | | |
| 7 day Central Bank rate | 10,50 | 0 | 175 | | --- |
| Badlar rate | 13,00 | 6,25 | -319 | | 17,00 |
| Brazil | | | | | |
| Official Rate | 9,25 | 0 | -300 | | 8,50 |
| Andima 1 year bond | 9,11 | -12 | -563 | | --- |
| Chile | | | | | |
| Official rate | 0,50 | -25 | -625 | | 0,75 |
| Swap CLP | 0,56 | -5 | -734 | | --- |
| 10 year rate | 5,73 | -13 | -236 | | --- |
| Colombia | | | | | |
| Official Rate (BR) | 4,50 | 0 | -525 | | 5,00 |
| DTF | 5,32 | -8 | -448 | | --- |
| TES jul-2020 | 9,04 | -5 | -363 | | --- |
| Mexico | | | | | |
| Official Rate (fondeo) | 4,75 | 0 | -300 | | 5,50 |
| 3 months rate | 4,71 | -8 | -315 | | 5,47 |
| 10 years rate | 7,99 | -21 | -114 | | 6,90 |
| Peru | | | | | |
| Official Rate | 2,0 | -100,0 | -400,0 | | 2,00 |
| 10 years* | 5,9 | -8,0 | -163,0 | | |
| Venezuela | | | | | |
| Overnight-interbank (daily) | 4,9 | -167,9 | -808,4 | | 5,0 |
| CD 28d (official) | 6,0 | 0,0 | -800,0 | | 6,0 |
| DPF 90d | 14,5 | -24,0 | -250,0 | | 14,5 |

Foreign exchange market

Depreciation in Latin American currencies, because of signs of weaknesses in labour and consumer confidence data released in the United States.

| Exchange Rate | End | Weekly Var. % | Yearly Var. % | Forecast. Dec 2009 |
|----------------------------|-------|---------------|---------------|--------------------|
| America | | | | |
| Argentina (peso-dollar) | 3,81 | 0,2 | 26,0 | 4,10 |
| Brazil (Real-dollar) | 1,99 | 2,1 | 23,9 | 2,05 |
| Colombia (Peso-dollar) | 2097 | 0,4 | 17,7 | 2342,70 |
| Chile (Peso-dollar) | 549 | 1,8 | 8,8 | 560,00 |
| Mexico (Peso-dollar) | 13,57 | 2,4 | 31,7 | 13,00 |
| Peru (New sol-dollar) | 3,02 | 0,1 | 6,9 | 3,15 |
| Venezuela (Bolívar-dollar) | 2147 | 0,0 | 0,0 | 2150,00 |
| dollar-Euro | 1,39 | -0,4 | -12,3 | 1,25 |

Emerging Spreads

Country risk rose in Latin America economies, with a sharp increase in Argentine country risk (65.8 bps).

| EMBI+ sovereign spreads | End | weekly chg. Bps | Annual chg bps |
|-------------------------|------|--------------------|-------------------|
| EMBI+ | 439 | 8 | 130 |
| EMBI + Latin America | 477 | 9 | 156 |
| Argentina | 1125 | 66 | 481 |
| Brazil | 290 | 4 | 43 |
| Colombia | 320 | 13 | 93 |
| Chile* | 163 | 0 | -18 |
| Mexico | 267 | 10 | 77 |
| Peru | 292 | 5 | 84 |
| Venezuela | 1203 | 3 | 592 |
| EMBI+ Asia | 353 | 3 | 20 |
| EMBI+ Europe | 404 | 9 | 128 |

Commodity Markets

The dollar appreciation helped to reduce the appetite for commodities as a hedge against inflation and prices displayed a generalized drop this week. International authorities intensified in the last days the discussions about a tighter control of financial flows into commodities futures markets.

| Commodities | End | Weekly Var. % | Yearly Var. % | Forecast Dec 2009 |
|---------------------|------|---------------|---------------|----------------------|
| Brent (\$/b) | 60,6 | -7,7 | -58,1 | 56,3 |
| Gold (\$/onza) | 913 | -2,1 | -5,4 | 875,0 |
| Copper (c/lb) | 222 | -1,7 | -42,2 | 165,0 |
| Soy (c/bush) | 426 | 2,9 | -25,4 | 370,0 |
| Corn (c/bush) | 122 | 0,1 | -48,8 | 350,0 |
| Goldman-Sachs Index | 436 | -5,3 | -51,1 | --- |
| CRB Index | 399 | -1,3 | -34,8 | --- |

Stock Markets

General decreases in Latin American stock markets after international stock markets were affected by oil companies' losses.

| Stock Exchange | End | Weekly Var. % | Yearly Var. % |
|--------------------------|-------|------------------|------------------|
| The Americas | | | |
| Argentina (Merval) | 1478 | -6,4 | -22,5 |
| Brazil (Bovespa) | 49178 | -3,4 | -18,2 |
| Colombia (General Index) | 9645 | -3,4 | 8,2 |
| Chile (IGPA) | 14745 | -0,7 | 9,5 |
| Mexico (IPC) | 23634 | -1,7 | -14,4 |
| Peru (Lima General) | 12689 | -1,6 | -13,7 |
| Venezuela (IBC) | 44732 | 0,2 | 17,6 |
| USA | | | |
| S&P 500 | 883 | -1,5 | -28,8 |
| Nasdaq 100 | 1753 | -2,4 | -21,7 |
| Europe | | | |
| Londres (FTSE) | 4159 | -1,8 | -21,0 |
| EuroStoxx50 | 2041 | -1,8 | -26,0 |
| Ibex35 | 9443 | -2,7 | -17,0 |
| Estambul-100 | 37062 | 0,7 | 5,9 |
| Asia | | | |
| Nikkei | 9287 | -5,4 | -28,8 |
| China | 3114 | 0,8 | 9,0 |

The week ahead

| Day | Country | Indicator | Period | Last/prev | Mkt Forecast | BBVA |
|------------------|-----------|-------------------------------------|--------|-----------|--------------|--------------------|
| Monday | | | | | | |
| | México | Gross fixed investment | Apr | -4.0 | -18.6 | |
| Tuesday | | | | | | |
| | Argentina | Consumer price index | June | 0,3% m/m | | 0,5% m/m |
| | Argentina | Wholesale price index | June | 0,4% m/m | | |
| | Argentina | Construction cost index | June | 0,6% m/m | | |
| | Colombia | Car Sales | June | 14.146 | | |
| | Brasil | Retail Sales (YoY) | May | 6,90% | | |
| Wednesday | | | | | | |
| | Chile | Weekly Indicators (BCCh) | July | | | |
| | Perú | GDP | May | -2% a/a | | BBVA: 0,5%-0,9% |
| | Perú | Unemployment | June | 8.5% | | |
| Thursday | | | | | | |
| | Colombia | Industrial production (YoY) | May | -14,5% | | -6,7% |
| | Colombia | Retail sales (YoY) | May | -7,1% | | -3,8% |
| Friday | | | | | | |
| | Argentina | Economic activity monthly estimator | May | 2,0% a/a | | 1,3% a/a |
| | México | Producción Industrial | May | -13.2 | -12 | -12.4 |
| | México | Monetary policy decision | June | 4.75 | 4.5 | 4.5 |
| | Brasil | FGV inflation IGD-10 (MoM) | July | -0,03% | | |
| | Brasil | Income tax | June | 49835M | | |

Macroeconomic Indicators

| | GDP (yoy) | | | | | Inflation | | Unemployment | | Industrial Prod. | | Sales | | Exports | | Trade Balance | |
|-----------|-----------|------|------|------|------|-----------|-----|-----------------|--------|------------------|-----|-------|------|---------|-----|---------------|-----|
| | 1Q09 | 4Q08 | 3Q08 | 2Q08 | 1Q08 | yoy | | (% active pop.) | | yoy | | yoy | | yoy | | mUSD | |
| Argentina | 2,0 | 4,1 | 6,9 | 7,8 | 0,0 | 5,5 | May | 8,4 | 1 T 09 | -1,7 | May | 23,2 | May | -18,0 | May | 2478,0 | May |
| Brazil | -1,8 | 1,3 | 6,8 | 6,2 | 6,1 | 4,8 | Jun | 8,8 | May | -11,3 | May | 6,9 | Apr | -22,2 | Jun | 4625,0 | Jun |
| Chile | -2,1 | 0,2 | 4,6 | 4,6 | 3,4 | 1,9 | Jun | 10,2 | May | -10,5 | May | -8,1 | May | -30,0 | Jun | 1027,5 | Jun |
| Colombia | -0,6 | -1,0 | 3,3 | 3,7 | 4,2 | 3,8 | Jun | 12,4 | May | -14,5 | Apr | -7,1 | Apr | -27,3 | Apr | 106,4 | Apr |
| Mexico | -8,2 | -1,6 | 1,7 | 2,9 | 2,6 | 5,7 | Jun | 5,3 | May | -13,2 | Apr | -5,8 | Apr | -32,8 | May | 209,7 | Apr |
| Peru | 1,8 | 6,5 | 10,9 | 11,8 | 10,3 | 3,1 | Jun | 8,5 | May | -13,6 | Apr | n.d. | n.d. | -27,0 | May | 634,0 | May |
| Venezuela | 0,3 | 3,2 | 4,1 | 7,3 | 5,0 | 27,4 | Jun | 7,7 | May | -0,9 | Jan | 23,6 | Jan | -55,5 | Mar | -1442,0 | Mar |

Sources: Bloomberg, Reuter, and
BBVA staff estimates.