



Weekly Observatory

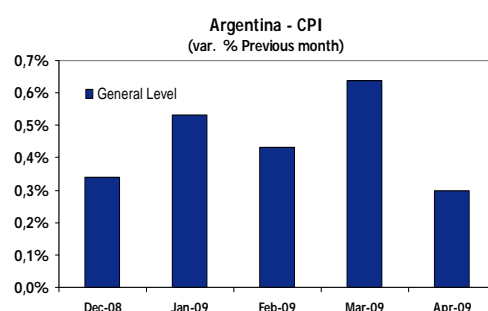
May, 14th, 2009

Weekly Highlights (11th – May 14th, 2009)

Another week defined by April inflation reports. Argentina's CPI (GBA) release falls below market expectations; thus, the Brazilian CPI remains on a downward path. Leading indicators remark the bleak state of the economy in Mexico and Venezuela. We also highlight the IMF's approval of the FCL to Colombia, and the positive view that two private institutions (Citigroup, Fitch) grant to the Peruvian economy. The release of GDP figures for 1Q09 in Mexico will be the hallmark for next week.

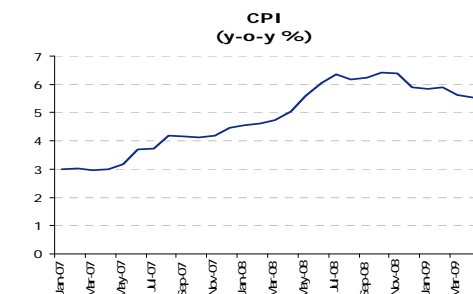
1. Argentina

- **April consumer inflation** – as measured by the Greater Buenos Aires CPI – was 0.3% m/m and 5.7% y/y, below consensus forecasts (0.5%). The largest price hikes were recorded in Health Services (1.1%) due to an increase in private medical insurance fees, whereas Food and Beverages prices increased by only 0.2%, reflecting a reduction in meat and vegetables prices.
- Our annual forecast (7.5%) appears as a possible ceiling, because meeting this target would require that in the next 8 months inflation average 0.7% m/m, which is highly improbable since in the first four months of the year – that were already affected by economic contraction-, monthly average inflation was 0.5%.



2. Brazil

• The consumer prices index for April came out as expected at 5.53%. This figure represents a slight reduction in comparison to March (5.61%) and therefore reinforces the slow moderation of the prices that has been displayed recently. Although current inflation remains higher than the inflation target for the end of 2009 (4.50%), markets expectations for inflation in December are controlled and below the goal (4.36%). On overall, prices continue to allow further cuts in official interest rates. The prices moderation is also providing some support to families' consumption as it strengthens real wages.



Source: Bloomberg

3. Chile

• Central Bank released its May Monetary Policy Report, with severe adjustments to the 2009 GDP growth scenario estimating that it will be between -0.75% and 0.25% (down from a 2% to 3% range, in January), with a downward outlook. The main factor behind the correction is a 4.7% contraction of domestic demand.

• The inflation revision is also significant, as the Central Bank changed its year-end forecast from 3.1% y-o-y to 0.6% y-o-y. For December 2010 the BCCh inflation forecast is 2.1% y-o-y. According to this scenario, the report anticipates additional monetary policy rate cuts and path below the market expectation in the mid term

Aggregate demand Chile (Var. % y-o-y)		
	2009	
	IPoM	BBVA
Domestic Demand	-4,7	-0,3
Consumption	0,2	1,4
Investment (FBCF)	-14,3	-7,6
Exports	-1,7	-15,1
Imports	-10,6	-10,7
GDP	-0,75 a 0,25	-1,2

4. Colombia

- International Monetary Fund approved USD \$10.5 billions through new flexible credit line, given to countries with solid macro-fundamentals. Colombia joined Mexico and Poland, the others countries that already received this credit line.
- Imports declined 7.1% (yoy) in March and fell 10.7% in 1Q09, explained mainly by a decreased in raw materials and intermediate products.
- According to ANDI, industrial production fell 5.9% year to date and retail sales decreased 4.1% in the first quarter. Both figures show a slightly better behavior during March

5. Mexico

• Gross Fixed Investment continued worsening in February, contracting (-) 12.1% y/y. Seasonally Adjusted figures show the fourth in a row monthly fall, a protracted fall trend. On Monday March's Industrial Production will be published, last activity indicator just before the 1Q09 GDP release on Wednesday. We forecast a -5.5% q/q and -7.4% y/y GDP variation. The Mexican economy will be officially in recession after two consecutive reductions of the GDP level. On Friday, we will know the 1st half of May inflation figure, that will to recuperate the moderation trend interrupted in April. Finally, April's Trade Balance will come out, and it will help to gauge the performance on Current Account Balance for this quarter

6. Peru

• Citigroup Inc. upgraded Peruvian stocks from "underweight" to "overweight". In this context, the General Index of Lima's Stock Exchange rose 8, 2% in the week (66, 8% YTD).

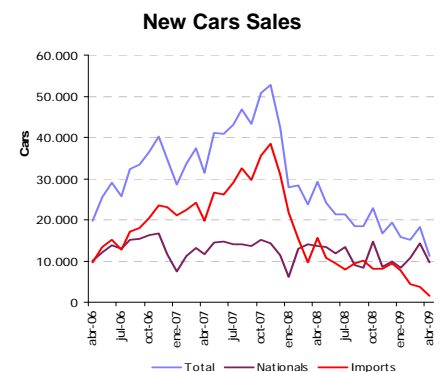
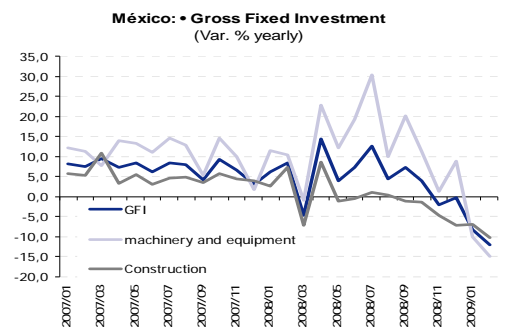
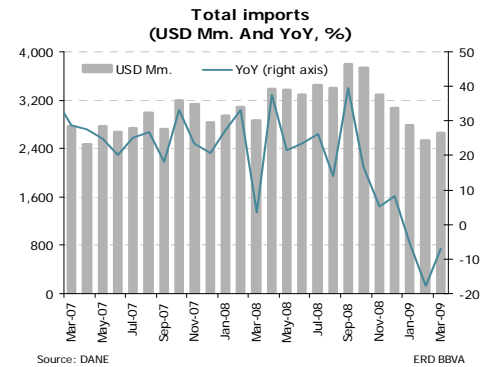
• According to the Central Bank, non-financial private firms increased their debt issuance in April by USD 103 million, the highest in the last sixteen months. This increase was mainly observed in firms related to domestic demand.

• Fitch Ratings affirmed Peru's long-term issuer default rating at investment grade, with a stable outlook. Robust fiscal and external solvency ratios, as well as high external liquidity, support Peru's sovereign rating. These strengths have increased the Peruvian economy's ability to withstand a commodity price collapse, a recession in advanced economies, and reduced capital and financial inflows

7. Venezuela

• **Some indicator shows a slowdown in economy activity.**

In April, the new car sales drop to 61% y-o-y while in accumulate sense (between January and April) the drop was 45%. These results joined to the real contraction of the banking credit and the lower energy demand. Taking into account those indicators and the actual labor market environment, our forecast for the fist quarter grows is 1.2% (2.6% lower than fourth quarter of 2008).



Source: RCV

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	250		---
Badlar rate	12,69	-6	238		17
Brazil					
Official Rate	10,25	0	-150		9
Andima 1 year bond	9,52	-27	-411		---
Chile					
Official rate	1,25	0	-500		2
Swap CLP	1,17	-14	-524		---
10 year rate	5,60	-8	-95		---
Colombia					
Official Rate (BR)	6,00	0	-375		5
DTF	6,58	-51	-325		---
TES jul-2020	8,64	-23	-235		---
Mexico					
Official Rate (fondeo)	6,00	0	-150,0		5,5
3 months rate	5,37	-6,0	-221,0		5,5
10 years rate	7,76	17,5	-29,8		6,9
Peru					
Official Rate	4,00	0	-150,0		2,00
10 years*	6,00	55,0	-37,0		
Venezuela					
Overnight-interbank (daily)	9,8	913	-1361		15,9
CD 28d (official)	6,0	-100	-800		6,0
DPF 90d	16,1	9	209		16,0

Foreign exchange market

Return depreciations against the dollar in all Latin American currencies, influenced by the commodity prices behaviour.

Exchange Rate	End	Weekly Var. %	Yearly Var. %	Forecast. Dec 2009
America				
Argentina (peso-dollar)	3,72	0,1	17,7	4,10
Brazil (Real-dollar)	2,12	0,4	27,8	2,30
Colombia (Peso-dollar)	2260	2,4	26,1	2543
Chile (Peso-dollar)	571,6	1,3	22,4	590,0
Mexico (Peso-dollar)	13,34	1,7	27,4	13,40
Peru (New sol-dollar)	3,04	2,9	10,0	3,30
Venezuela (Bolivar-dollar)	2147	0,0	0,0	2700
dollar-Euro	1,36	1,6	-11,9	1,21

Emerging Spreads

Country risk falls in the region, influenced by the confidence placed in the Latin American economy. Highlights the fall of 306.5 pb on the Argentina spread Embi.

EMBI+ sovereign spreads	End	weekly chg. Bps	Annual chg bps
EMBI+	466	-34.5	212.1
EMBI + Latin America	527	-30.0	250.9
Argentina	1379	-306.5	809.1
Brazil	305	-25.1	101.0
Colombia	313	-8.9	130.0
Chile*	264	-12.0	103.8
Mexico	254	-25.4	129.6
Peru	283	-0.4	132.9
Venezuela	1183	-54.1	567.7
EMBI+ Asia	335	-35.0	91.8
EMBI+ Europe	407	-43.8	190.7

Commodity Markets

Oil prices dropped to USD 56 per barrel after nearing USD 60 in the beginning of the week. The price decline is related to oil fundamentals (higher supply and lower demand) and to financial variables (weaker equities markets). Metals prices also dropped but some agricultural products found support on a USDA report released this week.

Commodities	End	Weekly Var. %	Yearly Var. %	Forecast Dec 2009
Brent (\$/b)	56,1	-0,7	-53,7	48,9
Gold (\$/onza)	925	1,6	4,9	875
Copper (c/lb)	201	-5,8	-47,4	160
Soy (c/bush)	392	1,3	-11,5	336
Corn (c/bush)	147	0,4	-29,5	147
Goldman-Sachs Index	401	4,0	-47,9	---
CRB Index	397	3,0	-27,6	---

Stock Markets

Latin American stock markets maintained a positive behaviour, except for Brazil and Mexico, which has been influenced by North American stock, that register falls on this week after hearing the bad retail sales data, which shows the greatest global recession.

The Americas			
Argentina (Merval)	1461	2,6	-31,1
Brazil (Bovespa)	48679	-2,8	-31,9
Colombia (General Index)	8907	1,94	-12,4
Chile (IGPA)	13737	2,7	0,1
Mexico (IPC)	23155	-1,8	-26,6
Peru (Lima General)	11757	8,6	-33,7
Venezuela (IBC)	44034	0,0	21,4
USA			
S&P 500	884	-2,6	-37,9
Nasdaq 100	1664	-3,0	-34,3
Europe			
Londres (FTSE)	4337	-1,4	-30,6
EuroStoxx50	2041	-1,6	-37,6
Ibex35	8948	-3,0	-36,9
Estambul-100	32790	-0,2	-23,1
Asia			
Nikkei	9094	-3,1	-36,2
China	2640	1,6	-27,4

The week ahead

Day	Country	Indicator	Period	Last/prev	Mkt Forecast	BBVA
Monday						
	Chile	Indicators of Trends Quarterly (GDP and Balance of payments)	1Q 2009			
	Colombia	Retail Sales (YoY)	Mar.	-4,10%		-5,00%
	Colombia	Industrial Production (YoY)	Mar.	-12,80%		3,30%
	México	Industrial Production	Mar.	-13.2	-8.3	-10.4
Tuesday						
	Brasil	Income Tax	April	53261M		
Wednesday						
	México	GDP Real	1Q09	-1.6	-8.0	-6.4
Thursday						
	Argentina	Economic activity monthly estimator	39873	2,6% a/a		1,9% a/a
	México	Commercial establishments	Mar	-8.6	-3.7	-2.5
	Brasil	Unemployment rate	April	0,09		
Friday						
	Argentina	Industrial monthly indicator	39904	- 0,9% a/a		- 5,0% a/a
	México	Inflation	1QMay	0.14	-0.37	-0.33
	México	Commercial Balance	April	159	-688	-770
	Brasil	IBGE IPC IPCA-15 (MoM)	May	0,36%		

Macroeconomic Indicators

	GDP (yoy)					Inflation		Unemployment		Industrial Prod.		Sales		Exports		Trade I
	4T08	3Q 08	2Q 08	1Q 08	4Q 07	yoy		(% active pop.)		yoy		yoy		yoy		m t
Argentina	4,9	6,9	7,8	8,5		5,7	Mar	7,3	Dec	-0,9	Mar	13,5	Mar	-16,0	Mar	1307,0
Brazil	1,3	6,8	6,2	6,1	6,1	5,6	Mar	9,0	Mar	-17,0	Feb	3,8	Feb	-6,4	Mar	1771,0
Chile	0,2	4,6	4,6	3,4	3,8	4,5	Apr	9,2	Mar	-7,1	Mar	-8,3	Mar	-40,0	Apr	774,6
Colombia	-0,7	2,9	3,9	4,1	8,1	5,7	Apr	13,5	Mar	-12,8	Feb	-4,1	Feb	-17,4	Feb	-41,9
Mexico	-1,6	1,7	2,9	2,6	3,7	6,0	Mar	4,8	Mar	-13,2	Feb	-8,6	Feb	-25,1	Mar	159,9
Peru	6,7	10,7	11,7	10,3	9,8	4,6	Apr	9,3	Feb	-7,5	Feb	n.d	Mar	-31,3	Mar	344,
Venezuela	3,2	4,1	7,3	5,0	8,5	28,3	Apr	7,3	Mar	-0,9	Jan	23,6	Jan	-45,9	Dec	-3724,0

Sources: Bloomberg, Reuter, and BBVA staff estimates.