



Weekly Observatory

October 16th, 2009

Weekly Highlights (12th – 16th October 2009)

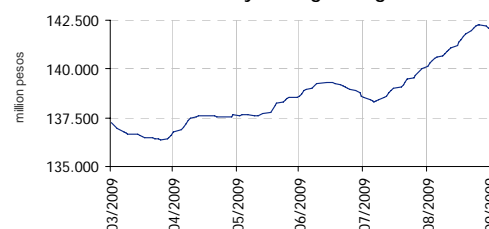
The latest meeting of the Central Bank of Chile, with no change in rates, confirms that the cycle of monetary easing in Latin America has been left behind. Trade accounts in Chile and Colombia remain benefited by import contractions, and leading to positive balances. Activity data in Brazil (employment) and Mexico (industrial production) show in the latter a weaker-than-expected recovery. Domestic currency deposits increased in Argentina, leading the Peso to have a more stable performance over the last few weeks.

1. Argentina

- Deposits in pesos of the private sector started showing a steady positive trend after several months of oscillation. The deposit growth is in line with the lower capital outflows and exchange rate stability in recent months. Indeed, the Central Bank began buying dollars in the foreign exchange market since August and the nominal exchange rate has remained at an average of 3.84 pesos per dollar since the same period.

As a result, also slowed the dollarization of deposits had grown more than 4 pp during this year. As a result, dollarization of deposits, whose participation had grown 4 percentage points during this year, also slowed down

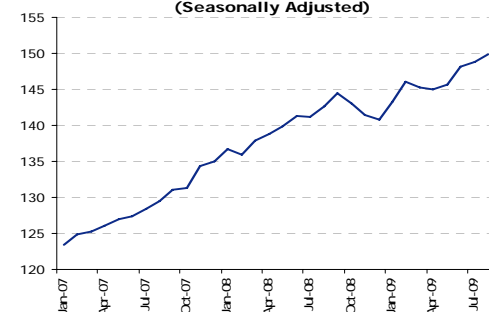
Argentina: Deposits in pesos of private sector
20- day moving average



2. Brazil

- Retail sales increased 0.7% m/m (4.7% y/y) in August. This expansion reinforces the recovery perspectives even though the figure fell behind market expectations (0.8% m/m; 5.4% y/y).
- During the month of September, 253 thousand new formal jobs were created. This is the highest number since September of 2008 when 283 thousand jobs were generated. The total number of jobs created since February (1,034 million) is now higher than the total number of jobs destroyed between November and February (0,798 million).
- The optimism towards the Brazilian economy continues to stimulate a large inflow of dollars into the country. As a consequence, both the BOVESPA and the Real continue to appreciate.

Brazil: Retail Sales Index
(Seasonally Adjusted)

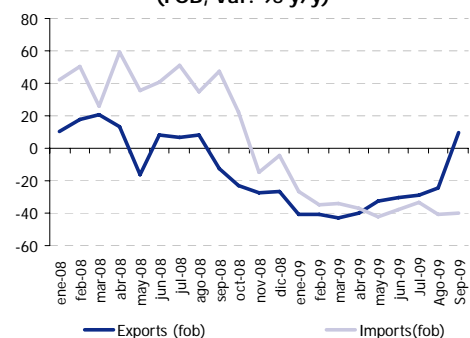


Source: Bloomberg

3. Chile

- During the October Monetary Policy Meeting the Central Bank of Chile agreed to maintain the monetary policy rate at the current historical minimum of 0.5 %, in line with the market and our expectations. Additionally, the complementary measures remain in place. The main arguments refer to recent signs of stabilizing economic activity and low underlying inflationary pressures.
- September exports show for the first time in 12 months positive annual growth rates (9.3%). However, the seasonal adjusted series decreased 0.2% m-o-m. Imports remain stable with negative growth rates near 40%. The growth of the s.a series was -1% m-o-m. The trade balance reached USD 1,525 million.

Chile: Exports and Imports
(FOB, Var. % y/y)



Source: CBCh & BBVA

4. Colombia

- Consumer confidence index for September continued its recovery despite the slight decrease in its monthly change.
- During August, imports fell 25.4% y-o-y and accumulated a contraction of 17.4% for 2009. On the other hand, in August the balance of trade recorded a surplus of USD 259.7 million due to a strong adjustment of private demand.
- The Colombian government issued a USD 1 billion sovereign bond maturing in 2041 with a yield of 6.15%. With this issuance, the government continues to anticipate the acquisition of financial resources for 2010.

5. Mexico

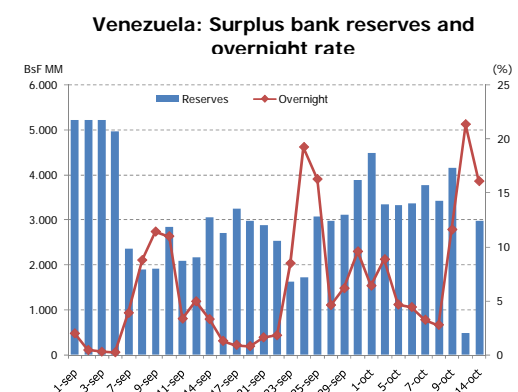
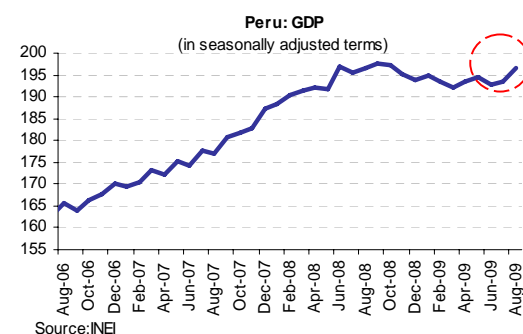
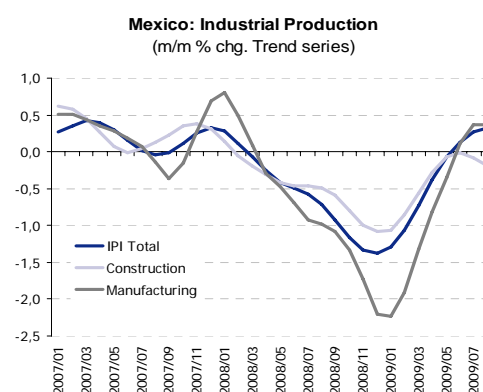
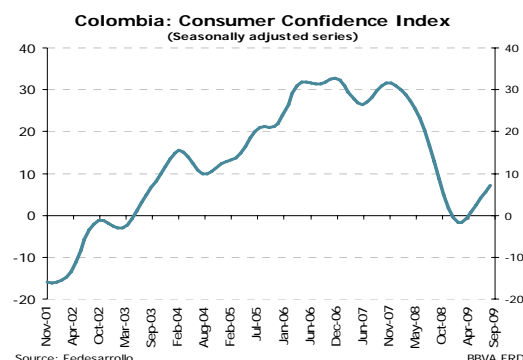
- This week August's industrial production was published (-7.3 y/y vs. -5.7 BBVA), it contracted -0.2% m/m moderating its recovery. The most affected sectors were construction and manufacturing production, the first one affected by the civil engineering component and the second one by the weak performance in manufactures of electric and electronic devices. Even though we expect a positive q/q change of the GDP we don't rule out a slower recovery than expected. Investment contracted -14.1% a/a in July but keeps improving monthly by growing 0.3% boosted by investment in imported machinery and construction. Banxico kept its over-night rate unaltered for the third month in a row. Next week October's bi-weekly inflation will come out, we expect it to keep its lowering trend.

6. Peru

- In August, GDP grew by 0.3% y/y after decline for two consecutive months (-1.4% y/y in July and -2.1% y/y in June). This result is explained by the good performance of the Construction and Services sectors in a context of stronger fiscal stimulus. This recovery will continue in the coming months, although this will depend on the effectiveness of fiscal stimulus and the end of inventory adjustment.
- In September local cement dispatches, leading indicator of Construction evolution, rose 0.9% m/m (6% m/m in August) and reached a new record level in this month.

7. Venezuela

- Executive branch sent to the National Assembly the 2009 Budget. Unofficial information indicates that total expenditure would be BsF 143.0 MMM (USD 66.5 MMM), which implies a 11.0% reduction with compare to the last year. The federal indebtedness would reach BsF 35.0 MMM (USD 16.3 MMM), level slightly lower (-6.6%) than 2009's amount. The fiscal income would be supported on a Venezuelan oil basket price of 40.0 USD/bl.
- Interbank market under stress due to International Bond settlement. The overnight interest rate showed an important rise, reaching a maximum of 32.0% and an average weekly rate of 21.3%. The most relevant driver of this upturn is the liquidity demand to settle the International Bond issued two weeks ago.



The latest from markets

Bond and Money markets

Market	End	Weekly Var.	Yearly Var. Bp	Forecast. Dec 2009
Argentina				
7 day Central Bank rate	9,25	0	-125	---
Badlar rate	12,00	-12,50	-281	16,00
Brazil				0,00
Official Rate	8,75	0	-500	8,50
Andima 1 year bond	10,10	4	-448	---
Chile				
Official rate	0,50	0	-775	0,50
Swap CLP	0,73	2	-762	---
10 year rate	6,03	6	-83	---
Colombia				0,00
Official Rate (BR)	4,00	0	-600	4,50
DTF	4,47	-28	-485	---
TES jul-2020	8,75	-1	-353	---
Mexico				
Official Rate (fondeo)	4,50	0	-375	5,50
3 months rate	4,62	-3	-346	5,47
10 years rate	7,84	-1	-129	6,90
Peru				
Official Rate	1,3	0,0	-525,0	1,00
10 years*	5,5	-11,0	-402,0	
Venezuela				
Overnight-interbank (daily)	16,0	1165,0	494,0	5,00
CD 28d (official)	6,0	0,0	-800,0	6,00
DPF 90d	15,8	130,0	-14900,0	14,50

Foreign exchange market

Appreciation among Latin American currencies this week, particularly the Brazilian real appreciation because of expectations of greater inflows of foreign investment.

Exchange Rate	End	Weekly Var. %	Yearly Var. %	Forecast. Dec 2009
America				
Argentina (peso-dollar)	3,82	-0,4	18,9	4,10
Brazil (Real-dollar)	1,70	-2,2	-18,7	1,88
Colombia (Peso-dollar)	1848	-0,5	-18,4	2252,56
Chile (Peso-dollar)	547	-1,4	-11,0	560,00
Mexico (Peso-dollar)	13,08	-1,6	3,3	13,10
Peru (New sol-dollar)	2,86	-0,2	-6,6	2,97
Venezuela (Bolívar-dollar)	2147	0,0	0,0	2150,00
dollar-Euro	1,49	1,3	10,8	1,44

Emerging Spreads

Latin American country risks were mixed this week, with significant increases in Venezuela and marginal reductions in Brazil and Mexico

EMBI+ sovereign spreads	End	weekly chg. Bps	Annual chg bps
EMBI+	291	-1,8	-289
EMBI + Latin America	331	6,8	-301
Argentina	693	29,7	-641
Brazil	207	-5,6	-259
Colombia	201	24,9	-301
Chile*	140	7,4	-131
Mexico	170	-5,5	-214
Peru	180	19,3	-303
Venezuela	949	42,8	-431
EMBI+ Asia	220	-20,8	-278
EMBI+ Europe	246	-9,5	-272

Commodity Markets

The price of oil reached a 12-month high as US gasoline inventories dropped, equity prices rose and the dollar weakened to a 14-months low. Agriculture prices increased significantly as weather concerns added to the supportive macro/financial picture. Base metals prices displayed mixed results this week.

Commodities	End	Weekly Var. %	Yearly Var. %	Forecast Dec 2009
Brent (US\$/Bbl)	75,9	8,5	66,5	56,3
Gold (US\$/Troy oz)	1049	0,0	18,9	875
Copper (US\$/t)	6289	0,9	104,9	3638
Soybean (US\$/t)	351	3,0	2,2	370
Corn (US\$/t)	133	4,0	-7,4	170
Goldman-Sachs Index	503	4,0	8,4	---
CRB Index	457	1,7	21,1	---

Stock Markets

General increases in Latin American stock markets, especially the BOVEPSA index benefited from the increase in commodity prices and the earnings in Wall Street.

Stock Exchange	End	Weekly Var. %	Yearly Var. %
The Americas			
Argentina (Merval)	2225	2,6	83,0
Brazil (Bovespa)	66703	4,1	83,3
Colombia (General Index)	10863	-2,8	43,0
Chile (IGPA)	16147	-0,5	38,6
Mexico (IPC)	31018	3,3	52,7
Peru (Lima General)	15459	0,0	95,5
Venezuela (IBC)	51732	-0,6	43,1
USA			
S&P 500	1097	2,3	16,6
Nasdaq 100	2173	1,6	27,0
Europe			
Londres (FTSE)	5266	2,0	29,6
EuroStoxx50	2510	2,8	10,8
Ibex35	11939	1,7	23,7
Estambul-100	50629	0,8	95,7
Asia			
Nikkei	10258	2,4	18,0
China	2977	2,2	54,2

The week ahead

Day	Country	Indicator	Period	Last/prev	Mkt Forecast	BBVA
Monday						
	Colombia	Industrial Production	Aug	-6,53%		
	Colombia	Retail Sales	Aug	-3,70%		-2,10%
Tuesday						
	Argentina	Current account balance	Sep	Mu\$s 1155		Mu\$s 1284
	Colombia	construction license	Aug	-32,8%		
Wednesday						
	México	Employment and occupation	Sep	6.3	NA	6.0
Thursday						
	Chile	Weekly Economic Indicators (CBCh)	Oct			
	Chile	Monthly Bulletin (CBCh)	Oct			
	México	Inflation	1QOct	0.39	NA	0.36
	México	Commercial Establishments	Aug	-4.8	-3.7	-3.2
	Venezuela	Unemployment	Sep	August: 8,0%		
	Brasil	Unemployment Rate	Sep	8,1%		
Friday						
	Argentina	Previous monthly industrial estimator	sep-09	-1,40%		-2,8%
	Colombia	Overnight Rate	Oct.	4,0%		4,0%
	México	Trade Balance	Sep	-835	NA	-825
	Brasil	IBGE IPC IPCA-15 (MoM)	Oct	0,19%		
	Brasil	Consumer confidence FGV	Oct	111,5		

Macroeconomic Indicators

	GDP (yoy)					Inflation		Unemployment		Industrial Prod.		Sales		Exports		Trade Balance	
	2Q09	1Q09	4Q08	3Q 08	2Q 08	yoy		(% active pop.)		yoy		yoy		yoy		m USD	
Argentina	-0,8	2,0	4,1	6,9	0,0	6,2	Sep	8,8	2 T 09	-1,4	Aug	12,7	Aug	-40,0	Aug	1155,0	Aug
Brazil	-1,2	-1,8	1,3	6,8	6,2	4,3	Sep	8,1	Aug	-7,2	Aug	4,7	Aug	-30,7	Sep	1330,0	Sep
Chile	-4,5	-2,3	0,2	4,6	1,0	-1,1	Sep	10,8	Aug	-3,8	Aug	-0,2	Aug	9,3	Sep	1525,1	Sep
Colombia	-0,5	-0,4	-1,1	2,8	3,9	3,2	Sep	13,1	Aug	-6,5	Jul	-3,7	Jul	-18,7	Aug	259,7	Aug
Mexico	-10,3	-8,0	-1,6	1,7	2,9	4,9	Sep	6,3	Aug	-7,3	Aug	-4,8	Jul	-24,9	Aug	-835,0	Aug
Peru	-1,1	1,8	6,5	10,9	11,7	1,2	Sep	8,3	Aug	-12,4	Jul	n.d.	n.d.	-23,4	Aug	539,0	Aug
Venezuela	-2,4	0,5	3,5	3,8	7,2	27,3	Sep	8,0	Aug	-12,4	Jun	-12,0	Jun	-53,6	Jun	3212,0	Jun

Sources: Bloomberg, Reuter, and BBVA staff estimates.