



# Weekly Observatory

April 30th, 2009

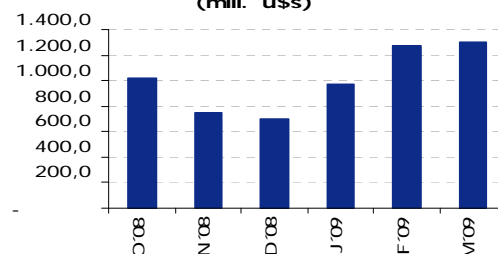
## Weekly Highlights (24th – April 30th, 2009)

Central banks in Brazil and Colombia cut reference interest rates by 100 bps this week. March data in Chile were in the expected (negative) range, while Colombia's consumer confidence index recorded another fall in March, and currently stands at a minimum since 2003. In Peru, we highlight the new bilateral trade accord signed with China, and recent statements by the Finance Minister, suggesting that Peru might follow the example of Mexico and Colombia, and request the new Flexible Credit Line developed by the IMF. Highlights for next week include the monetary policy meeting in Chile, and inflation in Brazil and Colombia

### 1. Argentina

- March trade balance data showed a surplus of USD 1,307 million, 58% above the surplus of March 2008. Exports fell at a slower pace (-16% y/y in March, -25% on February), while imports continued contracting at rates above 30% y/y, well above our estimates. Manufactured products of farming origin were the only export sector that registered a positive y/y variation, growing 25% in volumes, because these exports had been critically affected by the farmers' strike in March 2008. The first quarter of 2009 showed a surplus of USD 3,556 million, 12% above 2008 Q1.
- Also affected by the deceleration in activity, nominal Supermarket sales grew 13.5% y/y in March, a deceleration with respect to previous months (18.1% y/y in February), whereas Shopping centers sales fell for the first time since late 2002 (-5.3% y/y).

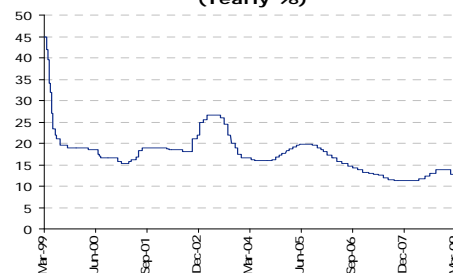
Argentina - Comercial Balance  
(mill. u\$s)



### 2. Brazil

• As expected by the markets, the Brazilian Central Bank cut reference interest rates by 100 bps to 10.25%. This is SELIC's lowest level since the implementation of the inflation targeting in 1999. Official Interest rate reductions now accumulate a 350bps fall since the beginning of the year. The constant moderation in internal prices and a sharp decline in the internal demand have been leaving room for an easing in monetary policies. The SELIC cut announced this week was lower than the cut observed in the previous Monetary Policy Board's meeting (150 bps). This is coherent with the view shared by the Central Bank and the markets that economic activity has been gradually (but slowly) recovering since the beginning of the year

SELIC  
(Yearly %)



### 3. Chile

• The activity indices reported by the INE show that industrial production fell 7.1% as well as industrial sales (-8.3%), in line with our estimates. Retail sales fell 3.5%. Employment fell for the first time since 2001, -0.5%, while the unemployment rate reached 9.2% in Jan-Mar, higher than the 8.5% rate in the previous moving quarter.

• The SBIF report of March indicates that the Chilean banking system earned \$ 248,841 MM in 1Q09. Total loans reached \$69,398,049 million (-0.20% m/m) and consumer loans \$8,505,874 million. The ratio of non-performing loans, which may be compared to historic ratios, increased to 1.13% (from 1.1% in February).

### Chile: Activity and Employment

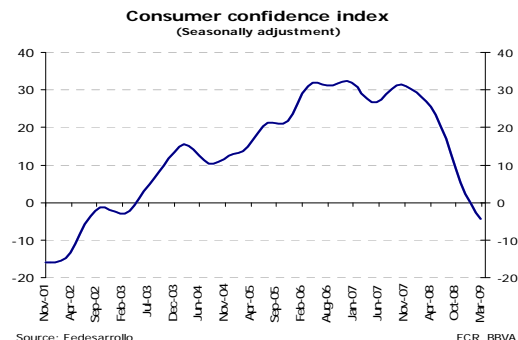
Change (% y-o-y)	2008		2009			
	Oct	Nov	Dec	Jan	Feb	Mar
Apr-30-2009						
Industrial Production	-0.8	-5.7	-3.7	-8.9	-11.5	-7.1
Industrial Sales	-3.9	-6.6	-5.5	-9.4	-11.6	-8.3
Retail Sales	3.6	0.3	-1.1	1.2	-3.1	-3.5
Supermarket Sales	3.8	0.1	-4.2	3.8	-1.2	-1.4
Mining Production	-7.9	-5.8	-9.2	-3.6	-10.0	-6.0
Electricity Generation	0.4	2.9	1.1	-1.1	-5.5	2.6
Total Employment	3.8	3.4	2.6	0.5	0.3	-0.5
- Payroll	5.6	4.6	3.8	1.9	1.1	-0.2
- Self-employed	1.4	1.8	0.6	-2.3	-2.4	-0.3
Unemployment rate	7.5	7.5	7.5	8.0	8.5	9.2
Imacec	2.0	-1.1	-0.2	-1.9	-3.9	-1.7

source: INE, BCCh and BBVA

#### 4. Colombia

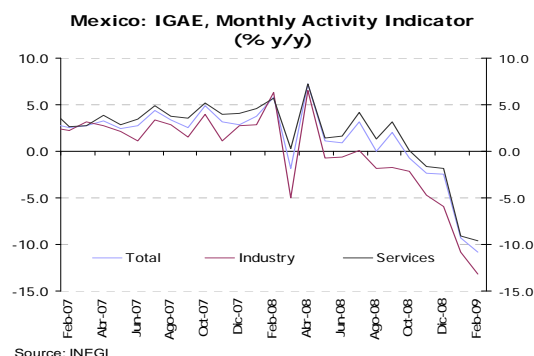
- **Consumer confidence** fell to -4.6 in February from -1.6 in January.
- This is the lowest reading since April of 2003. The decreasing confidence shows the hard first quarter for Colombian economy.
- National Department of Taxes and Customs (DIAN) presented a preliminary report of April's collection. In the first four months of the year **collected taxes** met government target. This figure is consistent with the new government economic growth forecasts where the budget deficit widens to 3.7% of GDP.

The Central Bank cut interest rates by 100 bps, further relaxing monetary policy.



#### 5. Mexico

- This week was released IGAE –monthly activity indicator-, that fell 10.8% y/y in February. The seasonally adjusted series decreased 7.2% y/y, less intense than January's fall, a sign of stabilization in the rhythm deceleration, with the first positive m/m variation since last June. Banxico published a downward revision on its growth forecast for 2009: from a range between -0.8% and -1.8% to -3.8% and -4.8%, and without considering the swine flu outbreak economic impact. Additionally Banxico increased its expected inflationary range for the rest of 2009 in 25 pts. (for 2Q09 from 5.25% to 5.5% and from 5.75% to 6.0%). This expectative will be consistent with the April's inflation figures that will be released next week.



#### 6. Peru

- The Peruvian and Chinese governments signed a Free Trade Agreement (FTA), which is likely to be implemented in early 2010. This agreement implies free tariffs for over 90 percent of traded goods between these two countries, trade which amounted to USD 7,5 billion (13% of Peru's total trade in that year).

Congress approved two measures to increase disposable income and thus private spending: i) exemption (in 2009/10) of contributions to social health insurance and Pension Funds (AFP) for additional wages paid in July and December (in Peru annual wages are paid in 14 instalments) and ii) free availability of 100% of Compensación por Tiempo de Servicios deposits (CTS, an unemployment coverage) which would be made this year by employers in May and November.

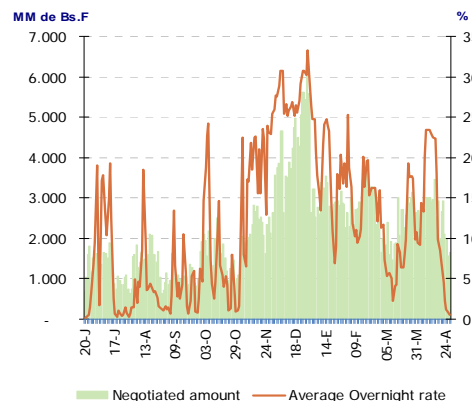
Peruvian Finance Minister slipped the possibility that Peru could draw upon the IMF's flexible credit line (up to around USD 9,5 billion). This would have had a positive impact on the exchange rate (-2.5%) and country risk (-31bps) during the week.



#### 7. Venezuela

- Nelson Merentes was designed chairman of the Central Bank. We do not expect significant changes on the monetary policy in the short run. It will continue with the an ease strategy.

- Relaxed atmosphere in the overnight market. Even with the weekly issuance of BsF 1.000 million on public debt, the expansive monetary policy relaxed pressures over the interbank market. Yesterday, the average overnight interest rate closed at 0.5%, level pretty lower than rates observed previous months.



## The latest from markets

## Bond and Money markets

Market	End	Weekly Var.	Yearly Var. Bp	Forecast. Dec 2009
<b>Argentina</b>				
7 day Central Bank rate	10.50	0	250	---
Badlar rate	12.81	19	413	17
<b>Brazil</b>				
Official Rate	10.25	-100	-150	9
Andima 1 year bond	10.01	-2.1	-308	---
<b>Chile</b>				
Official rate	1.75	0	-450	2
Swap CLP	1.32	-9	-509	---
10 year rate	5.35	-3	-115	---
<b>Colombia</b>				
Official Rate (BR)	7.00	0	-275	6
DTF	6.87	-28	-274	---
TES jul-2020	8.95	-3	-222	---
<b>Mexico</b>				
Official Rate (fondeo)	6.00	0	-150.0	5.5
3 months rate	5.69	-5.0	-190.0	5.5
10 years rate	7.84	16.4	-13.0	6.9
<b>Peru</b>				
Official Rate	5.00	0	-50.0	
10 years*	5.32	-7.0	-111.0	
<b>Venezuela</b>				
Overnight-interbank (daily)	0.8	-140	45	15.9
CD 28d (official)	6.0	-100	-800	6.0
DPF 90d	16.0	0	203	16.0

## Foreign exchange market

The Latin American currencies are appreciating this week, except the Mexican peso, which reached its lowest level of the past six months against the dollar, influenced by the swine flu pandemic.

Exchange Rate	End	Weekly Var. %	Yearly Var. %	Forecast. Dec 2009
<b>America</b>				
Argentina (peso-dollar)	3.69	-0.1	16.8	4.10
Brazil (Real-dollar)	2.18	-1.5	31.0	2.30
Colombia (Peso-dollar)	2292	-0.5	30.2	2543
Chile (Peso-dollar)	589.2	0.6	27.5	590.0
Mexico (Peso-dollar)	13.75	3.7	31.1	13.40
Peru (New sol-dollar)	3.01	-2.3	6.9	3.30
Venezuela (Bolivar-dollar)	2147	0.0	0.0	2700
dollar-Euro	1.34	2.1	-13.6	1.21

**Emerging Spreads**

The country risk falls continued in the region except, this week, for Argentina.

EMBI+ sovereign spreads	End	weekly chg. Bps	Annual chg bps
EMBI+	537	-12.2	272.9
EMBI + Latin America	592	-13.2	300.4
Argentina	1769	19.1	1185.3
Brazil	359	-16.7	134.1
Colombia	349	-39.3	144.9
Chile*	299	-10.0	134.1
Mexico	311	-8.5	172.6
Peru	308	-25.3	142.4
Venezuela	1314	27.4	697.0
EMBI+ Asia	415	-19.3	170.1
EMBI+ Europe	485	-6.5	265.5

**Commodity Markets**

Oil prices were relatively stable this week as concerns about the impact of the swine flu on commodities markets were counterbalanced by the expansion of equities markets and by the USD depreciation in the last days of this week. Livestock commodities had their prices very negatively affected by the worries related to the swine flu.

Commodities	End	Weekly Var. %	Yearly Var. %	Forecast Dec 2009
Brent (\$/b)	50,2	-5,8	-56,8	48,9
Gold (\$/onza)	910	4,7	2,6	875
Copper (c/lb)	197	-9,9	-50,1	160
Soy (c/bush)	360	1,0	-21,8	336
Coffee (c/lb)	179	0,5	23,8	124
Corn (c/bush)	134	0,9	-34,1	147
Goldman-Sachs Index	376	0,4	-48,7	---
CRB Index	376	-0,7	-32,1	---

**Stock Markets**

The Latin American stock markets registered increases during the week influenced by the strong performance of other stock markets.

Stock Exchange	End	Weekly Var. %	Yearly Var. %
<b>The Americas</b>			
Argentina (Merval)	1271	3.4	-39.4
Brazil (Bovespa)	47227	3.1	-30.4
Colombia (General Index)	8363	3.33	-15.8
Chile (IGPA)	12929	1.2	-7.5
Mexico (IPC)	22079	1.1	-27.1
Peru (Lima General)	10108	2.7	-42.0
Venezuela (IBC)	44362	-0.4	17.7
<b>USA</b>			
S&P 500	874	2.5	-38.0
Nasdaq 100	1712	3.6	-31.0
<b>Europe</b>			
Londres (FTSE)	4247	5.7	-30.2
EuroStoxx50	2022	4.6	-37.5
Ibex35	9011	2.8	-34.7
Estambul-100	31427	8.5	-26.3
<b>Asia</b>			
Nikkei	8828	-0.2	-35.9
China	2478	0.6	-32.9

**The week ahead**

Day	Country	Indicador	Period	Last/prev	Mkt Forecast	BBVA
<b>Monday</b>						
	Argentina	Salary index	March	24,2% a/a		
	Brasil	Manufacturing PMI	April	4220,0%		
	Brasil	Car Sales (Anfavea)	April	271.442		
<b>Tuesday</b>						
	Chile	Imacec (BCCh)	March	-3,9%		
	Colombia	IPC (MoM)	April	0,005	0,0045	0,4%
	Colombia	IPC (YoY)	April	6,1%	5,9%	5,8%
	Brasil	Trade Balance (FOB) Monthly	April	\$1771M		
	Brasil	Industrial Production (YoY)	April	-0,17%		
<b>Wednesday</b>						
<b>Thursday</b>						
	Chile	Prices and wages indices (INE)	April			
	Chile	Weekly indicators (BCCh)	May			
	Chile	COPOM Monetary Policy Meeting Minutes	May			
	Colombia	Comercial Balance	Feb			
	Brasil	COPOM Monetary Policy Meeting Minutes	May			
<b>Friday</b>						
	Chile	MPR presentation is published	May			
	Chile	Tenders Calendar				
	Colombia	Monetary Policy Meeting Minutes	April			
	Venezuela	Monthly Inflation	April	1,50%		Previsión SEE, 3,6%
	Brasil	IBGE Inflation IPCA (MoM)	April	0,20%		
	Brasil	IBGE IPCA (YoY)	April	5,61%		

**Macroeconomic Indicators**

	GDP (yoy)					Inflation		Unemployment		Industrial Prod.		Sales		Exports		Trade
	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	9.1	6.3	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	5.0	Mar	8.5	Feb	-11.5	Feb	-11.6	Feb	-44.5	Mar	950.0
Colombia	-0.7	2.9	3.9	4.1	8.1	6.1	Mar	13.6	Feb	-12.8	Feb	-4.1	Feb	-13.2	Jan	-166.4
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	4.8	Mar	9.3	Feb	-7.5	Feb	n.d	Feb	-27.4	Feb	254.0
Venezuela	3.2	4.1	7.3	5.0	8.5	28.5	Mar	7.3	Mar	-0.9	Jan	23.6	Jan	-45.9	Dec	-3724.0

Sources: Bloomberg, Reuter, and BBVA staff estimates.