



Weekly Observatory

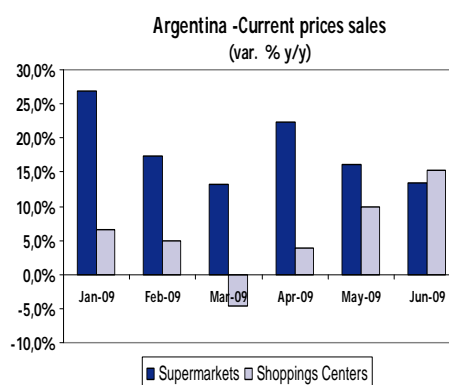
July, 31st, 2009

Weekly Highlights (27th – 31st July, 2009)

The Mexican monthly activity index (IGAE) and the industrial production data released in Argentina and Chile reinforces previous signs that the economic activity in Latin America is falling but at a slower pace. The countries in the region continue tuning their fiscal policies to ameliorate the impact of the crisis. In Colombia the government presented the budget for 2010 with a 7% nominal increase in public expenditure with respect to 2009. In Brazil, the primary surplus continued to deteriorate due to still increasing public expenditures. In Peru, the implementation of the public investments is being slower than planned by the government. Credit volumes in Brazil increased slightly in June in comparison to May but non-performing loans continued to rise.

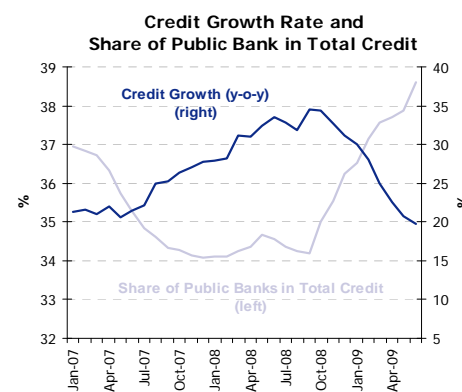
1. Argentina

- Industrial production of June dropped by 2.7% y/y according to the IPI of FIEL. This drop is smaller than the drops observed before but this comparison is impacted by the agricultural strike and the natural gas restriction to industry whose were registered in June of 2008. In comparison to the first quarter of the year, after adjusting for seasonality, the industrial production expanded 2.9%.
- Supermarket sales at current prices grew by 13.5% y/y in June. In the first and second quarter of this year these sales had increased by 19.5% y/y and 17.3% y/y respectively. Shopping sales registered a better performance with respect to previous months (12.5% y/y) because of the incorporation to the measurement of a new commercial center in Buenos Aires City.



2. Brazil

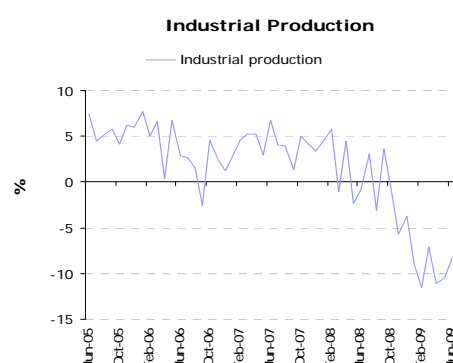
- Total credit expanded 1.3% m-o-m in June (19.7% y-o-y), supported by public banks' loans which have been avoiding a further moderation of credit growth rates (which grew by more than 30% before the crisis). NPL loans reached 4.4%, slightly above the rate observed in May (4.3%). The data released this week also show that funding conditions remain more negative for firms than for consumers.
- The yearly current account deficit continued to moderate and reached 1.37% of the GDP in June. The FDI, on the other hand, reached 3.03% of the GDP.
- Public accounts deteriorated additionally in June as revenues continue to contract and expenses continue expanding (due to countercyclical measures). The primary surplus declined to 2.04% in June, below the goal set for the end of this year (2.5%).



Source: Central Bank of Brazil

3. Chile

- June industrial production shows signs of deceleration in the pace of decline for the first time since June 2008. Trade activity doesn't, however, show signs of stabilization.
- Another activity indicator that suggests an improvement in activity was the number building permits which presented an increase of 16.5% y/y.
- The unemployment rate continued to rise mainly explained by a fall in formal employment.
- The stock market was stable, the dollar rose to \$ 541 and the country risk dropped by 17 bps during the week.



Source: Bloomberg

4. Colombia

- During June, exports dropped 25.3% yoy, with a reduction of 18.8% for 1H09, due to a decrease of 25% in traditional exports.
- Remittances decreased 16.6% yoy during the second quarter of the year, as a result of the deteriorating performance of labour markets in economies with a strong presence of Colombian workers (USA and Spain). Nevertheless, this result is better than expected.

5. Mexico

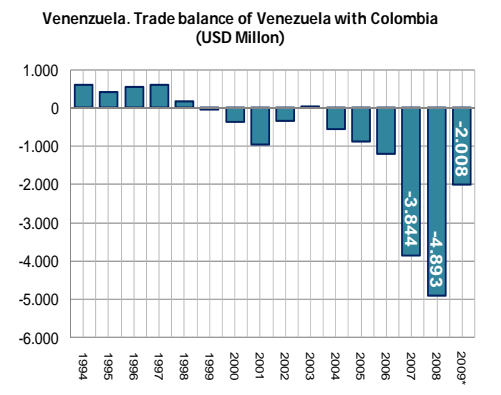
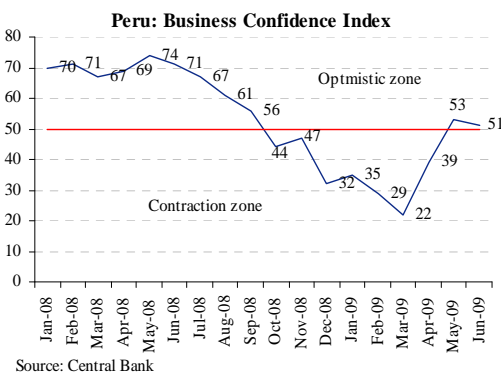
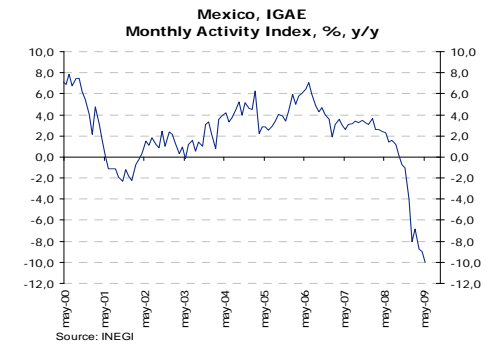
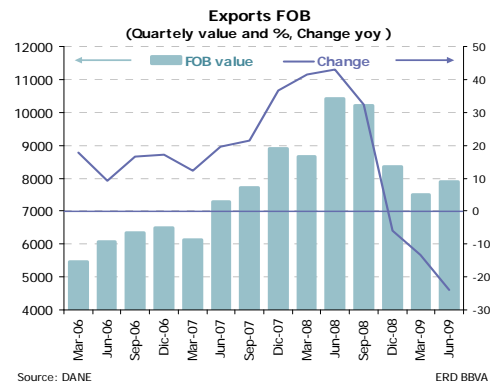
- The economic activity measured through IGAE contracted in May -11.1% y/y (-10% y/y sa), the deepest fall since June 1995. Nevertheless, in a monthly basis, economic activity shows an easing in the adjustment process: -1.0% m/m in May vs -3.0% m/m for Dec-Jan average. Banxico's Inflation Quarterly Report revised downwards its 2009 growth forecast to a range (-6.5; -7.5%) and upwards the 2010 growth estimation to (2.5%, 3.5%). The central bank maintains its inflation expectative in a range of (3%, 3.5%) at the end of 2010.

6. Peru

- The Central Bank released preliminary figures for public investment, showing that in 2Q09 it grew by 13.9%/y/y (23.4%/y/y in 1Q09). In this way, and even when a rebound in 2H09 is expected, it becomes less likely to achieve the 52%/y/y growth rate for 2009 that the Government anticipates for this variable.
- Moreover, the Central Bank made public the results on its monthly Macroeconomic Expectations Survey held between June 13th and 30th (for a sample of 365 representative firms). These show that both the financial situation and the credit access indexes improved between May and June (from 54 to 55 and from 55 to 56, respectively). On the other hand, although business confidence remained in the optimistic zone, it showed a reduction from the previous month (from 53 to 51), while inventories deteriorated from 48 to 46 (under 50, inventories are reducing).

7. Venezuela

- President Chavez announced an interruption of diplomatic relationship with Uribe's administration. Colombia represents the second largest trade partner of Venezuela. The bilateral trade between the countries USD 7.289 million in 2008. International borders continue open, but there are transit restrictions in some security points.
- Trade agreements were signed by Spanish firms and local government following the Spanish Chancellor Moratinos. The agreements include the expansion of Repsol's participation on Orinoco Belt project, the supply of 1.8 million of crude in one year to Spanish refineries and a project to build an electric generation plant.



The latest from markets

Bond and Money markets

Market	End	Weekly Var.	Yearly Bp	Var.	Forecast. Dec 2009
Argentina					
7 day Central Bank rate	10,00	0	125		---
Badlar rate	13,31	25,00	125		17,00
Brazil					
Official Rate	8,75	0	-425		8,50
Andima 1 year bond	9,28	5	-539		---
Chile					
Official rate	0,50	0	-675		1,50
Swap CLP	0,56	-2	-727		---
10 year rate	5,76	0	-177		---
Colombia					
Official Rate (BR)	4,50	0	-525		6,00
DTF	5,24	13	-439		---
TES jul-2020	8,90	13	-380		---
Mexico					
Official Rate (fondeo)	4,50	0	-350		5,50
3 months rate	4,63	-21	-371		5,47
10 years rate	8,11	11	-85		6,90
Peru					
Official Rate	2,0	0,0	-400,0		
10 years*	6,0	-7,0	-177,0		
Venezuela					
Overnight-interbank (daily)	9,3	715,4	827,3		5,0
CD 28d (official)	6,0	0,0	-800,0		6,0
DPF 90d	14,6	-6,0	-243,0		14,5

Foreign exchange market

Mixed results in the currency markets this week because of the volatility of commodity prices and the dollar-euro exchange rate.

Exchange Rate	End	Weekly Var. %	Yearly Var. %	Forecast. Dec 2009
America				
Argentina (peso-dollar)	3,83	0,6	26,2	4,10
Brazil (Real-dollar)	1,88	-0,7	20,6	2,30
Colombia (Peso-dollar)	2047	3,8	15,2	2543,00
Chile (Peso-dollar)	542	0,6	7,1	590,00
Mexico (Peso-dollar)	13,23	-0,1	32,8	13,40
Peru (New sol-dollar)	2,98	-0,4	6,2	3,30
Venezuela (Bolívar-dollar)	2147	0,0	0,0	2700,00
dollar-Euro	1,41	-0,8	-9,3	1,25

Emerging Spreads

Global aversion to risk grew in most Latin American economies, except Chile and Venezuela that showed a fall of -28.9 Bps embi spread after the Venezuelan government approved the partial payment of the debt with cement companies.

EMBI+ sovereign spreads	End	weekly chg. Bps	Annual chg bps
EMBI+	386	8	108
EMBI + Latin America	423	10	121
Argentina	961	15	352
Brazil	254	10	33
Colombia	272	9	70
Chile*	147	-20	-28
Mexico	211	27	43
Peru	246	4	62
Venezuela	1106	-29	478
EMBI+ Asia	310	5	44
EMBI+ Europe	353	7	115

Commodity Markets

Concerns with a shift in credit policies in China were the main driver of commodity markets this week. Prices dropped significantly following comments that the pace of credit growth in China could be reduced and recovered after Chinese authorities reassured expansionary policies and calmed the markets down.

Commodities	End	Weekly Var. %	Yearly Var. %	Forecast Dec 2009
Brent (\$/b)	70,6	0,4	-43,2	56,3
Gold (\$/onza)	938	-1,4	3,0	875,0
Copper (c/lb)	254	1,6	-30,6	165,0
Soy (c/bush)	372	4,3	-23,7	370,0
Corn (c/bush)	118	5,5	-43,2	350,0
Goldman-Sachs Index	447	-0,8	-41,3	---
CRB Index	410	0,2	-25,4	---

Stock Markets

Positive behaviour in Latin American stock exchanges was driven by a recovery in commodity prices and the good performance of Wall Street.

Stock Exchange	End	Weekly Var. %	Yearly Var. %
The Americas			
Argentina (Merval)	1696	1,3	-10,0
Brazil (Bovespa)	54478	0,04	-5,5
Colombia (General Index)	10269	-0,2	13,0
Chile (IGPA)	15340	-0,3	7,5
Mexico (IPC)	26810	0,6	-0,6
Peru (Lima General)	13894	0,4	0,5
Venezuela (IBC)	46246	1,3	16,3
USA			
S&P 500	987	0,8	-21,7
Nasdaq 100	1984	0,9	-14,1
Europe			
Londres (FTSE)	4632	1,2	-13,5
EuroStoxx50	2307	2,6	-19,1
Ibex35	10874	4,2	-6,0
Estambul-100	42696	8,4	-0,7
Asia			
Nikkei	10357	4,1	-20,9
China	3412	1,2	21,8

The week ahead

Day	Country	Indicator	Period	Last/prev	Mkt Forecast	BBVA
Monday						
	Argentina	Salary Index	May	20,1% a/a		
	Perú	Monthly inflation	July	June: -0.34% m/m		BBVA: 0.1%-0.2%
	Perú	Inflation YoY	July	June: 3.06% a/a		BBVA: 2.7%
	Brasil	Industrial production YoY	June	-11,30%	-10,00%	
Tuesday						
	Brasil	CNI Capacity Utilization	June	79,80%		
Wednesday						
	Colombia	IPC (MoM)	July	-0,06%		0,1%
	Colombia	IPC (YoY)	July	3,81%		3,4%
	Chile	Economic Activity YoY	July	-4,40%	-3,60%	
Thursday						
	Perú	Reference rate	August	July: 2%		BBVA: 1.5%
	Venezuela	Inflation	July	June 2,1%		
	Chile	IPC (YoY)	July	1,90%	0,60%	
Friday						
	México	Inflation	July	0.18	0.30	0.26
	Chile	Total exports USD millions	July	\$4087.7		
	Chile	Total imports USD millions	July	\$3060.2	0	
	Brasil	IBGE inflation IPCA (MoM)	July	0,36%	0,27%	

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	5,3	Jun	8,4	1 T09	0,6	Jun	23,2	May	-4,5	Jun	1528,0	Jun
Brazil	-1,8	1,3	6,8	6,2	6,1	4,8	Jun	8,1	Jun	-11,3	May	4,0	May	-22,2	Jun	4625,0	Jun
Chile	-2,1	0,2	4,6	4,6	3,4	1,9	Jun	10,7	Jun	-8,3	Jun	1,1	Jun	-30,1	Jun	1027,5	Jun
Colombia	-0,6	-1,0	3,3	3,7	4,2	3,8	Jun	12,4	May	-6,5	May	-3,5	May	-18,8	Jun	417,0	May
Mexico	-8,2	-1,6	1,7	2,9	2,6	5,7	Jun	5,2	Jun	-11,6	May	-8,4	May	-26,6	Jun	680,0	May
Peru	1,8	6,5	10,9	11,8	10,3	3,1	Jun	8,5	Jun	-7,6	May	n.d.	n.d.	-27,0	May	634,0	May
Venezuela	0,3	3,2	4,1	7,3	5,0	27,4	Jun	7,8	Jun	-0,9	Jan	20,5	Mar	-55,5	Mar	-1442,0	Mar

Sources: Bloomberg, Reuter, and
BBVA staff estimates.