



Weekly Observatory

December 26th, 2008

Weekly Highlights (December 19th – December 26th, 2008)

Latest activity data for 3T08 in Argentina, Colombia and Mexico confirm that a slowdown is taking place. In Brazil and Peru, on the other hand, domestic credit does not seem to show –as of November– a significant quantitative adjustment to the crisis. Financial markets maintained the stability tone that has been characteristic of much (most?) of December. Country risk recorded mild but generalized reductions. Exchange rates and stocks registered marginal changes, with the exception of Argentina and Brazil, where stock indexes endured intense falls.

1. Argentina

- **International trade data** shows an important adjustment during November. Both export (-5.8% y/y) and import (-5.4% y/y) figures reflect the impact of shrinking trade flows. The **trade surplus** for the full year could rise to about USD 14 billion.

- November's **monthly industrial production index (EMI)** declined by 0.7% m/m (seasonally adjusted series) and remained unchanged on a year-on-year basis. The contraction in Car Manufacturing and Basic Metal industries was not compensated by the positive performance of Food and Chemical industries.

- During October, **economic activity** (measured by EMAE) increased only by 0.1% m/m s.a., (5.2/ y/y), an early sign of the slow down that will be observed during the last quarter of the year.

2. Brazil

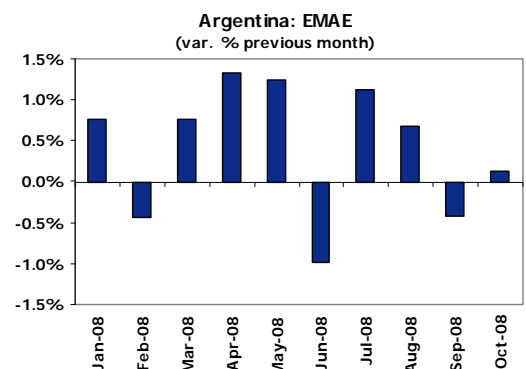
- **Credit** increased 2% from October to November, taking the credit-to-GDP ratio from 39.6% to 40.3%. Corporate and household loans increased 3% and 0.1%, respectively. Hence, credit is expanding despite the ongoing international financial crisis. A cautionary note on this regard is that part of this growth might be related to a shift from international to domestic sources of financing, to compensate for the loss of external credit.

- According to the Central Bank, credit would increase 18% in 2009 (against 33% in 2008), enabling the credit-to-GDP ratio to reach 43%.

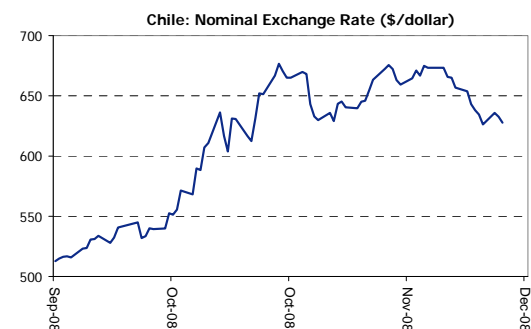
3. Chile

- The announced takeover of D&S (leading local supermarket operator with a 34% market share) by Wal-Mart, boosted the stock exchange and positively affected the country risk and currency value, which appreciation 1.2% by the end of the week.

- We expect a worsening of the activity and employment indicators for November (to be released on Tuesday 30).



Source: Banco Central do Brasil



4. Colombia

- In the 3Q08 **Gross Domestic Product** grew 3.1% q/q, as expected by the market. The result shows an important improvement in the construction sector, mainly driven by an increase in heavy constructions. On the demand side, investment continues to grow at a high pace, surprising the market. Also the DANE revised up GDP growth in 2Q08 to 3.8%
- In November **cement production and sales** decreased 11.7% and 17.6% y/y, respectively. Also, construction permits shrank 34.2% y/y in October. These results show a decline in starting projects for 4Q08.

5. Mexico

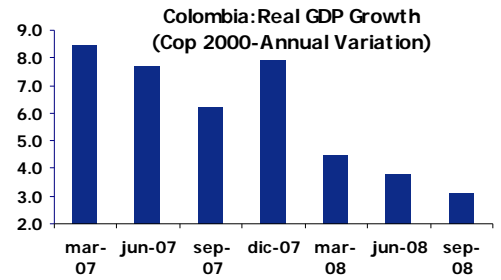
- **Aggregate demand** data for 3Q08 shows favorable results for private consumption (3.3% yoy) and investment (7.9%) even though there are signs of deceleration. Net exports contribution to growth was negative given that exports grew only 2.3% y/y while imports increased 8.1% y/y. The trade balance deficit for November was the highest since 1980. CPI inflation for the first half of December almost doubled the expected figure (0.45% vs. 0.21%). Hence, annual CPI inflation could reach 6.8% by the end of 2008.

6. Peru

- **Credit.** In November, credit to the private sector kept growing at a pace similar to that in previous months (37.3% y/y against 37.6% in October). This expansion was common to all credit types. In terms of currency, credit in local currency showed the highest growth rate (48.7% y/y against 47.0% in October), particularly in the mortgage segment (87.9% against 91.5% in October).
- **Inflation.** We expect consumption prices to increase around 0.3% m/m in December. Hence, inflation in 2008 would close around 6.5%.

7. Venezuela

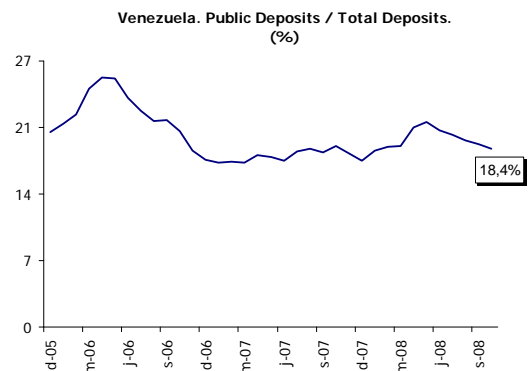
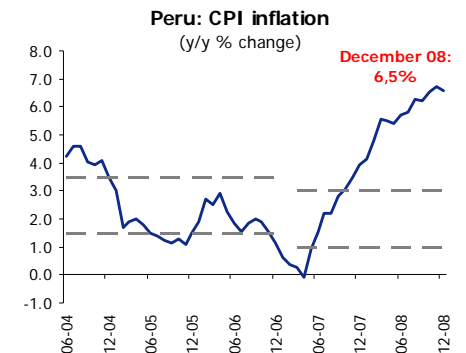
- **Regulation related to public funds deposited in the banking system:** This week, the Ministry of Finance issued norms regarding the restitution to the Treasury of public entities' funds currently deposited in banking institutions for at least four months. The measure deals with expected fiscal tensions during the coming months and could negatively impact those financial institutions holding a larger share of these public deposits. Public deposits represent about 19% of total bank's deposits. In recent weeks, the overnight interbank market has been subject to tensions, being the increased volatility of public deposits a main factor in explaining the resulting high rates and dispersion. Banks will be demanded to return funds directly to the Treasury upon request.



Mexico: Aggregate Supply and Demand

	(% annual, nsa)			
	2007	1Q08	2Q08	3Q08
Aggregate Supply	4.1	4.0	4.3	3.3
GDP	3.2	2.6	2.7	1.6
Imports	6.9	8.6	9.2	8.1
Aggregate Demand				
Consumption	3.8	3.4	2.9	2.9
Private	4.2	3.9	3.2	3.3
Public	1.0	0.6	0.7	-0.2
Investment	5.6	2.7	8.2	7.9
Inventories	23.6	73.6	-17.8	-32.7
Exports	6.1	5.6	6.4	2.3

Source: INEGI



The latest from markets

Bond and Money markets

Market	End	Weekly Var.	Yearly Var. Bp	Prev. 2008	Dec
Argentina					
7 day Central Bank rate	12.25	0	400	---	
Badlar rate	13.38	-531.25	250	20.00	
Brasil					
Official Rate	13.75	0	250	12.75	0.00
Andima 1 year bond	12.55	-47	42	---	
Chile					
Official rate	8.25	0	225	5.25	0.00
Swap CLP	7.00	-32	76	---	
10 year rate	5.96	0	294	---	
Colombia					
Official Rate (BR)	9.50	0	0	8.00	0.00
DTF	10.33	14	132	---	
TES jul-2020	10.54	-16	25	---	
México					
Tipo oficial (Tasa de fondeo bancaria)	8.25	0	72	5.50	
3 months rate	8.16	-6	54	8.30	
10 years rate	8.00	14	-15	8.75	
Perú					
Tipo oficial	6,50	0	150	6,50	
Tipo 10 años*	7,69	-22	159	---	
Venezuela					
Overnight-interbancaria (diaria)	26.6	-89	939	9.7	
CD 28d (oficial)	13.0	0	200	13.5	
DPF 90d	18.2	106	700	18.0	

Foreign exchange market

Latin currencies register mild variations during the week. The Chilean Peso appreciates after the announcement that Wal-Mart will acquire D&S. Slight depreciations in Colombia and Mexico, the latter due to the negative economic data being released in the U.S.

Exchange Rate	End	Weekly Var. %	Yearly Var. %	Prev. Dec 2008
America				
Argentina (peso-dollar)	3.44	0.6	9.2	3.30
Brazil (Real-dollar)	2.38	-0.5	33.8	2.30
Colombia (Peso-dollar)	2207	1.4	9.8	2329.00
Chile (Peso-dollar)	627	-1.4	25.9	634.00
México (Peso-dollar)	13.30	1.4	22.0	12.8
Peru (New sol-dollar)	3.14	0.9	4.7	3.10
Venezuela (Bolívar-dollar)	2147	0.0	0.0	2.15
dollar-Euro	1.41	1.3	-4.4	1.30

Emerging Spreads

Reduction in spreads, in line with the trend registered in other regions.

EMBI+ sovereign spreads	End	weekly chg. Bps	Annual chg bps
EMBI+	692	-15	466
EMBI + Latin America	725	-10	472
Argentina	1817	-26	1424
Brazil	436	-12	229
Colombia	497	-5	317
Chile*	338	-18	191
México	371	-6	236
Perú	506	-7	342
Venezuela	1854	-5	1367
EMBI+ Asia	562	-10	360
EMBI+ Europe	688	-26	509

Commodity Markets

Oil and most metals displayed sharp drops during the week, as perspectives on global economic performance deteriorate.

Commodities	End	Weekly Var. %	Yearly Var. %	Forecast Dec 2008
Brent (\$/b)	37.3	-15.3	-60.3	57.5
Gold (\$/onza)	845	0.8	0.5	750.0
Copper (c/lb)	127	-3.0	-58.7	160.0
Soy (c/bush)	305	2.3	-23.9	336.0
Coffee (c/lb)	133	0.7	-5.9	124
Corn (c/bush)	140	4.5	-12.0	438.9
Goldman-Sachs Index	346	-2.4	-27.0	---
CRB Index	741	4.0	2.2	---

Stock Markets

Mixed performance on Latin exchanges: Most indexes show little or no gain, while Argentina and Brazil suffer steeper losses, negatively affected by the performance of Wall Street.

Stock Exchange	End	Weekly chg %	Yearly chg %
America			
S&P 500	868	-2.2	-41.3
Nasdaq 100	1525	-2.5	-43.0
Argentina (Merval)	1038	-5.3	-51.7
Brazil (Bovespa)	36471	-6.8	-42.9
Colombia (Ind. General)	7537	-0.7	-29.5
Chile (IGPA)	11189	-0.3	-20.5
México (IPC)	22341	0.5	-24.8
Perú (General Lima)	6999	0.2	-60.1
Venezuela (IBC)	34520	0.1	-8.9
USA			
S&P 500	868	-2.2	-41.3
Nasdaq 100	1525	-2.5	-43.0
Europe			
Londres (FTSE)	4217	-1.6	-34.9
EuroStoxx50	2015	-1.8	-45.3
Ibex35	9069	-2.2	-40.3
Estambul-100	26239	0.1	-52.9
Asia			
Nikkei	8740	1.8	-42.9
China	1852	-8.3	-64.8

The week ahead

Day	Country	Indicator	Period	Last	Mkt Forecast	BBVA
Monday						
	Argentina	Commercial Centers Survey	nov	15,1% a/a		
	Argentina	Supermarkets Sales Survey	nov	34,0% a/a		
Tuesday						
	Argentina	Public Service Statistics	nov	6,3% a/a		
	Argentina	Construction Activity Index	nov	0,0% a/a		
	Chile	Industrial Production	Nov	-0.8%		
	Chile	Mining Production	Nov	-8.2%		
	Chile	Labor	Nov	3.8%		
	Chile	Unemployment	Nov	7.5%		
	Mexico	Public Finance	Nov	78.37M\$		
Wednesday						
	Mexico	Monetary aggregates	Nov			
	Colombia	Unemployment	Nov	11.0%	11.8%	11.5%
Thursday						
	Colombia	CPI(MoM)	Dic	0.3%	0.3%	0.2%
	Colombia	CPI(YoY)	Dic	7.7%	7.5%	7.4%
Friday						
	Colombia	Monetary Policy meeting	Dic			
	Peru	CPI	Dic.	0,31% m/m		0,3% m/m
	Peru			6,75% y/y		6,5% y/y

Macroeconomic Indicators

	GDP (yoy)						Inflation		Unemployment		Industrial Prod.		Sales		Exports		Trade Balance	
	3Q 08	2Q 08	1Q 08	4Q 07	3Q 07	2Q 07	yoy		(% active pop.)		yoy		yoy		yoy		m USD	
Argentina	6.5	7.6	8.3	9.1	8.8		7.9	Nov	7.8	3 Q 08	2.6	Oct	34.0	Oct	-5.8	Nov	952	Nov
Brazil	6.8	6.2	6.1	6.1	5.4	5.4	6.4	nov	7.6	nov	1.3	oct	10.1	oct-08	5.0	nov	1613.0	nov
Chile	4.8	4.5	3.3	4.0	3.9		8.9	nov	7.5	oct	-0.8	oct	-3.9	oct	-19.2	nov.	11221	nov.
Colombia	3.1	3.8	4.5	8.0	6.5	7.7	7.73	Nov	1	Oct	-7.5	Oct	-0.1	Oct	24.8	Sep	-433	Sep
Mexico	1.6	2.8	2.6	4.2	3.4	2.6	6.23	Nov	4.1	Oct	2.7	Nov	1.6	jun	16.0	jun	-2834	Nov.
Peru	9.5	9	9.7	9.8	8.8	8.6	6.75	Nov	7.9	Nov	4.5	Oct	n.d.		-9.5	Oct	0	Oct
Venezuela	4.6	7.1	4.9	8.5	8.6		32.7	nov	6.7	Oct	-6.8	Ago	12.3	Ago	66.7	sep	19,201	sep

Sources: Bloomberg, Reuter, and BBVA staff estimates.