



Weekly Observatory

February 13th, 2009

Weekly Highlights (February 06th – February 13th, 2009)

The week is marked by the bold rate cut in Chile, where the central bank slashed official rates by 250 bp, well above expectations, and consequential to the drastic fall in inflation. These lower price pressures seem to be extending throughout the region, as illustrated by the latest data known for Argentina, Colombia and Peru. In Venezuela, the drop in real wages, especially for public employees, is an additional indication of the difficulties faced by public finances. Central Bank interventions in Peru and Colombia have aimed to counterweight depreciation pressure on their currencies. Just as in the rest of emerging areas, country risk perceptions recover an upward trajectory, with most stock indexes falling moderately.

1. Argentina

- January's consumer inflation – as measured by the Greater Buenos Aires CPI – was 0.5% with respect to December and 6.8% y/y, slightly below consensus forecasts. The largest price hikes were recorded in Transport and Communications (3.6%) due to the increase in public transportation fares. Food and Beverages prices fell by 0.7% due to the decrease in meat prices (-3.1%) and edible oils (-2%). In spite of the strong increase in electricity rates, the Basic housing services and energy section did not reflect the hike because the official CPI index basket only includes households with low electrical consumption, which were not affected by the adjustment.

2. Brazil

- Some indicators start to show that the economic activity in January is likely to display a recovery in comparison to December: car sales expanded 1.5% and the vehicles production increased 93% in January against the last month of 2008. This recovery, however, is only relative and can be partially explained by the strong economic activity contraction observed in December. The GDP is expected to decline in the first quarter of this year in comparison with the last of 2008.

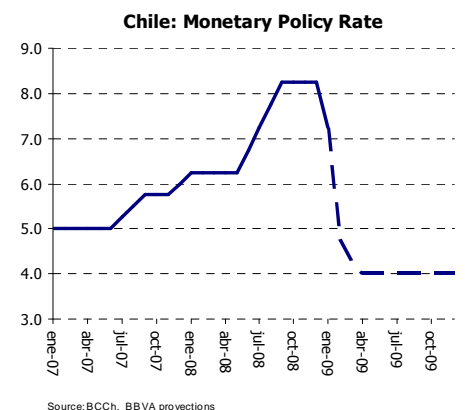
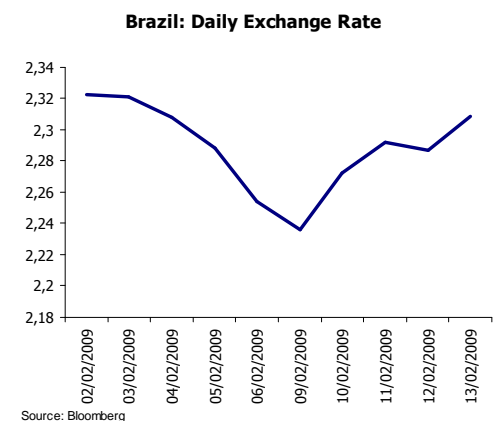
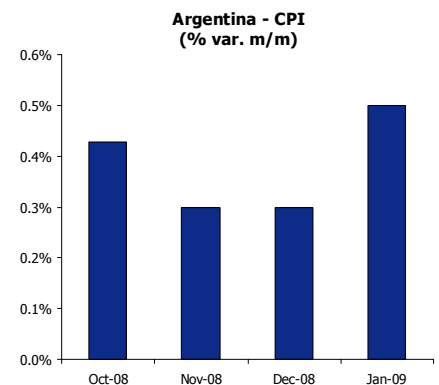
- The trade balance displayed a surplus in the first week of February after having displayed a deficit in January, the first since 2001.

- The first days of February have been showing a net dollars inflow into the country (the first positive inflow since the beginning of the crisis). This inflow has been helping to maintain the exchange rate below the 2.30 mark.

3. Chile

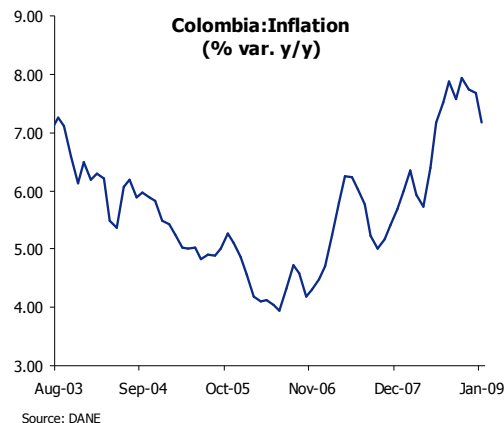
- The Board of the Central Bank of Chile decided to reduce the monetary policy interest rate by 250 basis points, to 4.75% (annual), more intensive than expected. This decision is grounded on the significant fall in inflation, due to the drastic change in the macroeconomic outlook.

- The Board considers that, in the most likely scenario, a process of monetary easing will continue. In fact, we expect additional reductions in the meeting of March or and April. So, we expected TPM close 2009 at 4.00% or lower.



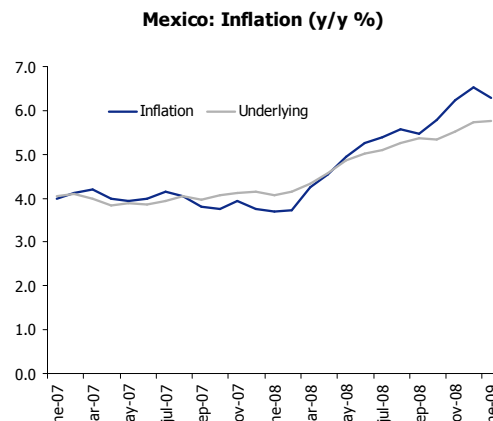
4. Colombia

- Consumer prices rose below market expectation in January. The report showed that prices increased 0,59% and annualized inflation fell from 7,67% to 7,18%. This is the first report with DANE new methodology (Dec 2008= 100).
- Colombian peso continues to weaken against the dollar as external outlook deteriorates further. Central Bank sold call options, to control peso volatility, for US 180 millions for the third time in less than a month.
- ANDI's survey showed that industrial production fell 3,1 during 2008.
- Several corporate bonds were tapped in the market having a high appetite for these papers.



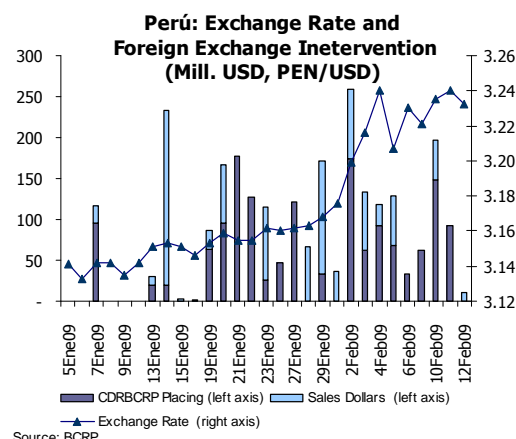
5. Mexico

- Inflation surprized favorably in January (0.23% vs. 0.32% BBVA), descending to 6.23% annually from 6.58% in december. Core inflation grew 0.43% in line with our forecast, with no significant change to the previous month (5.76% Jan.), showing resilience to reduction. The reduction was due to volatile componentes, as agricultural prices which reduced from 10.58% in December to 6.91% in January, and administred prices which reduced from 8.03% to 5.89%. The trend shows a moderation cycle in inflation, which should sharpen in March if no new exchange rate shocks occur. Gross fixed investment fell -2.0% in November, the machinery and equipment component grew 1.5% while construction diminished in -4.6%.



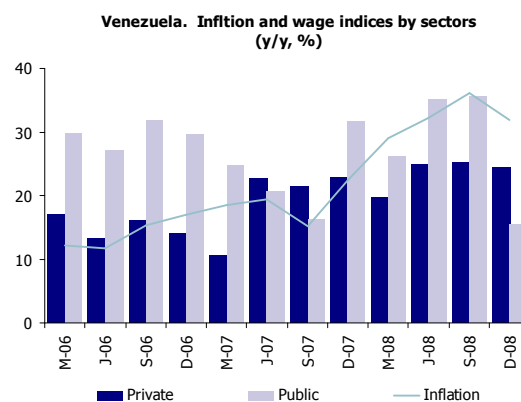
6. Peru

- Exchange rate. During the week, the exchange rate continued showing upward pressures (0,74% increase), although these were weaker than those on the previous one (0,9% PEN depreciation). In this context, the Central Bank has reduced its forex interventions, by means of issuing less CDRBCRP (equivalent to US\$ 337 million in this week and US\$ 397 million the one before) and selling less foreign currency (US\$ 58 million in this week and US\$ 277 million the one before).
- Issuance of corporate bonds. In January, primary issuances of corporate bonds showed some signs of recovery after the almost halt in 4Q08. In this sense, issuances reached US\$ 69 million, 46% and 26% higher than those in January and December 2008, respectively.



7. Venezuela

- The employment remuneration index grew by 21,3% on y/y basis in the IV-Q of 2008, resulting the second quarter of consecutive real wage decrease. In the private sector wages increased by 24,4%, whereas public employment suffered the lowest rate of salary growth (15,5%) since these statistics were published for the first time. The lower relative growth of government wages emerges as sign of difficulties in the public finances since external oil income started dropping.



The latest from markets

Bond and Money markets

Market	End	Weekly Var.	Yearly Bp	Var.	Forecast. Dec 2009
Argentina					
7 day Central Bank rate	11.00	0	275		---
Badlar rate	12.06	-225	400		17
Brazil					
Official Rate	12.75	0	150		10
Andima 1 year bond	11.27	13	-94		---
Chile					
Official rate	4.75	-250	-150		4
Swap CLP	9.00	0	-50		---
10 year rate	7.75	0	25		---
Colombia					
Official Rate (BR)	9.00	0	-50		7
DTF	9.43	-19	22		---
TES jul-2020	10.08	22	-123		---
Mexico					
Official Rate	7.75	0.0	25.0		5.5
3 months rate	7.35	4.0	-14.0		5.5
10 years rate	8.41	51.9	88.2		6.9
Peru					
Official rate	6.25	0.0	100.0		6.0
10 years*	7.06	-4.6	93.9		---
Venezuela					
Overnight interbank (daily)	11.2	-72.7	-203.3		15.9
CD 28d (official)	13.0	0.0	200.0		14.0
DPF 90d	17.0	0.0	446.0		17.0

Foreign exchange market

The week is generally marked by generalized currency depreciation and high volatility, prompting interventions by the central banks of Colombia and Peru. The Chilean peso appreciates despite the cut in interest rates.

Exchange Rate	End	Weekly Var. %	Yearly Var. %	Prev. Dec 2008
America				
Argentina (peso-dollar)	3.49	0.1	10.7	3.90
Brazil (Real-dollar)	2.31	2.4	31.7	2.30
Colombia (Peso-dollar)	2527.40	2.9	32.6	2442.7
Chile (Peso-dollar)	593.80	-3.5	27.8	620.0
Mexico (Peso-dollar)	14.36	0.9	33.4	13.37
Peru (New sol-dollar)	3.24	0.6	11.4	3.30
Venezuela (Bolivar-dollar)	2147.30	0.0	0.0	2.70
dollar-Euro	1.29	0.1	-12.0	1.15

Emerging Spreads

The EMBI Latam spread continues to increase, in pretty much a similar fashion than indexes of other emerging markets. Chile is the only exception, with a marginal downward move during the week.

EMBI+ sovereign spreads	End	weekly chg. Bps	Annual chg bps
EMBI+	678	47.7	398.1
EMBI + Latin America	735	44.7	425.6
Argentina	1645	103.6	1165.6
Brazil	451	37.2	187.2
Colombia	496	31.9	243.6
Chile*	371	-15.0	206.7
Mexico	423	60.7	246.0
Peru	446	26.9	232.9
Venezuela	1848	77.4	1303.3
EMBI+ Asia	513	31.8	249.8
EMBI+ Europe	648	63.0	422.1

Commodity Markets

Uncertainties about the US stimulus plan, weak Chinese trade data and downward revisions of 2009 oil demand weighted on commodities markets this week and helped to drive most prices down. Precious metals were the significant exception.

Commodities	End	Weekly Var. %	Yearly Var. %	Forecast Dec 2008
Brent (\$/b)	46.2	-0.1	-51.2	48.9
Gold (\$/onza)	938	2.9	4.0	750
Copper (c/lb)	153	-3.7	-56.4	160
Soy (c/bush)	340	-2.4	-24.2	336
Coffee (c/lb)	147	0.5	-6.1	124
Corn (c/bush)	131	-2.0	-25.6	147
Goldman-Sachs Index	363	-1.4	-29.7	---

Stock Markets

After several weeks of gains, regional stocks recorded losses in line with international markets. Largest losses are registered in Argentina, Brazil and Mexico.

Stock Exchange	End	Weekly chg %	Yearly chg %
America			
S&P 500	835	-3.8	-38.1
Nasdaq 100	1542	-3.1	-33.6
Argentina (Merval)	1085	-5.2	-46.8
Brazil (Bovespa)	40501	-5.3	-33.9
Colombia (Ind. General)	7958	-1.2	-14.5
Chile (IGPA)	12414	-1.7	-5.5
Mexico (IPC)	19358	-5.3	-32.7
Peru (General Lima)	6859	-1.7	-57.3
Venezuela (IBC)	35276	0.0	-0.6
USA			
S&P 500	835	-3.8	-38.1
Nasdaq 100	1542	-3.1	-33.6
Europe			
Londres (FTSE)	4281	-0.3	-26.0
EuroStoxx50	2003	-2.1	-36.8
Ibex35	8376	-2.0	-35.9
Estambul-100	25298	-5.4	-42.9
Asia			
Nikkei	7779	-3.7	-42.9
China	2321	6.4	-48.4

The week ahead

Day	Country	Indicator	Period	Last/prev	Mkt Forecast	BBVA
Monday						
	Chile	Exports	Jan			
	Chile	Imports	Jan			
Tuesday						
	Brasil	Retails Sales (y/y)	Dec	5.1%	1.0%	
	México	Industrial Production (y/y)	Dec	-5.4%	-5.7%	
Wednesday						
	Colombia	Retails Sales	Dec	-2.95%		-3.5%
	Colombia	Industrial Production	Dec	-13.30%		-7.8%
	Venezuela	GDP, Balance of Payments	4Q08	3Q08 GDP: 4,6% Current Account: USD 19,2 mM\$		4Q08 estimated PIB: 3,2% Current Account: USD 2,9 mM\$
Thursday						
Friday						
	Brasil	Unemployment Rate	Jan	6.80%	7.8%	
	Brasil	IBGE CPI ACPI-15 (m/m)	Feb	4.00%	5.1%	
	Brasil	External Investment	Jan	\$8117M	\$2500M	
	México	GDP constant MXN (y/y)	4Q08	1.6%	-1.5%	

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	6.9	ene	7.3	4 T 08	2.6	dic	23.5	dic	-24.0	Dic	862.0	dic	Dec	Nov
Brazil	6.8	6.2	6.1	6.1	5.8	ene	6.8	dic	-14.5	dic	5.1	nov	-26.3	ene	-518.0	ene	Jan	Nov
Chile	4.8	4.5	3.3	4.0	6.3	ene	7.5	Dic 10.	-3.7	dic	-5.5	dic	-24.4	Dic	8564.0	ene	Dec	Nov.
Colombia	3.1	3.8	4.5	7.9	7.2	ene	9	Dic	-13.3	nov	-3.0	nov	-27.2	v	-815.6	nov	Oct	Sep
Mexico	1.6	2.7	2.6	4.2	6.3	ene	4.3	dic	-5.4	nov	-2.6	nov	-19.7	dic	-2066.1	dic	Nov.	Nov.
Peru	9.5	10.9	9.7	9.8	6.5	ene	7.8	dic	3.8	dic	n.d.	ene	-30.7	dic	47.0	dic	Nov.	Oct
Venezuela	4.6	7.1	4.9	8.5	30.7	ene	6.1	Dec	2.4	oct	29.0	Sep	66.7	sep	19201.0	sep	Sep	sep

Sources: Bloomberg, Reuter, and BBVA staff estimates.