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Argentina: Inflationary spike in June

Brazil: Political noise remains high

Chile: Solid growth in May

Colombia: Reelection bill at risk

Mexico: Decrease in inflation

Venezuela: Car sales double in June

Argentina

After two somewhat calmer months, CPI inflation rose to 0.9% mom in June (9.0% yoy), considerably above market expectations (Consensus 0.6%). This raises ytd inflation to 6.1%, already on a path to exceed this year's central bank inflation target (5-8%). The June figure was driven by across-the-board hikes rather than specific, seasonally or tax-related, one-off effects. Core inflation (stripping out seasonal and regulated prices) went up by 1.1% mom, contributing with 0.78% of the 0.9% hike in the headline inflation last month. All in all, we continue to expect inflation beyond two digits at the end of this year (10.2%), above a market consensus at 9.8%. --- The official reaction to the worse than expected inflation data highlights the government's intention to ignore economic realities. According to the local press, the government will extend the current administrative measures as the main policy response instead of tightening monetary policy and slowing down the current fiscal spending spree. Apparently, the government plans to reinstate talks with food producers in coming days in order to look for price control measures. ---- The government reopened the Boden 2014's for an amount of ARS 1.0 bn, which faced a surprisingly high demand. Total bids accumulated to ARS 8.75 bn. These bonds are denominated in local currency and are issued under domestic jurisdiction. The coupon rate is 2% p.a. over the CER index (Coeficiente de Estabilización de Referencia) that tracks the CPI inflation rate. Principal is paid out in 6 semi-annual equal payments of 12.5% each beginning in September 2011. Demand came primarily from local institutional investors, although there are comments of a small but meaningful participation of external investors as well. Reportedly, the pricing was consistent with a real yield of 5.51% p.a., some 100 bps lower than the original placement in May 4. The government got finance for about ARS 855 mn (USD 297 mn). On prospects of dragged negotiations with the IMF towards a new program, we expect more of these domestic issues in the coming months.

Brazil

The PT's Secretary General (José Genoíno) and its Treasurer – both allegedly involved in the money for

votes scandal – left their positions. As they will give their testimonies over the coming weeks, political noise is likely to remain high. As expected president Lula announced changes to his cabinet giving the PMDB the key ministries of Health, Communications, and Mines and Energy. Further changes are expected to be announced soon. Yet there are no signals of a significant change in macro policies as a result of the ongoing political crisis. --- According to FGV's regular survey, consumer confidence took a dip in June; the percentage of those interviewed who think that the economy has deteriorated relative to six months ago increased to 35.6% compared with 28.2% in May. --- Further signs of slowing inflation: The IPCA fell by 0.02% in June, after an increase of 0.49% in May, and the Fipe index, which measures consumer price changes in São Paulo, fell by 0.2% mom in June following an increase of 0.35% in May. At the same time, the IGP-DI inflation index, which had already been negative in May (-0.25%), fell by a further 0.45% in June. --- Industrial production surprised on the upside in May, both on a yoy and mom basis. It was up by 5.5% yoy following an increase of 6.3% yoy in April and expectations of a rise of 5% yoy. The yoy increase continues to be driven by higher consumer goods production (+10.5%), where consumer durables are showing exceptionally high growth of 21.4%. On a seasonally adjusted mom basis, it rose by 1.3% vs. consensus of 0.4%. Overall, and following two months of weaker than expected mom industrial production figures, the latest data appear to indicate a rebound in economic activity; ytd expansion rose to 4.7% in May from 4.5% in April. In addition, the 3-months moving average, a good measure to assess medium-term trends and which previously was only showing growth in consumer durables production, staged a rebound across the board.

Chile

The IMACEC economic activity indicator posted growth of 6.4% yoy in May, slightly behind our forecast of a 6.8% expansion. Consensus had called for 6% growth. With this, accumulated growth in the first five months amounts to 6% yoy, putting the economy well on track to meet our overall 2005 GDP growth forecast of 5.3%. -

---- Driven by higher electricity and water prices, consumer prices increased by a somewhat higher-than-expected 0.4% mom in June, taking accumulated inflation in the first six months of the year to 1.8%. YoY inflation amounts to 2.7%. Core inflation posted a 0.4% increase as well, hinting at some underlying inflation pressure. We expect the central bank to resume the tightening process on its meeting this Tuesday, hiking the monetary policy rate by 25 bps to 3.5%. ---- At almost US\$ 1 bn, the trade surplus in June significantly exceeded our expectations and last June's value of US\$ 580 mn, due to very strong exports (+45.7% yoy, after +6.9% in May). For the first half of the year, the trade surplus amounts to US\$ 5 bn, almost unchanged from the same period last year.

Colombia

The constitutional court is considering the bill that should allow presidents to be reelected, and which may enable President Uribe to stand for a second term in May 2006. In the past, the court decided in accord with the attorney general in 64 % of the cases. The latter argued last week for the rejection of the bill due to methodological concerns. The decision of the constitutional court can take until mid-November at the latest. Especially foreign investors reacted slightly nervous to the statement of the attorney general. So the peso lost 0.5% against the US\$, being quoted at 2,339 COP/US\$ on Tuesday. Even though the peso stabilized later in the week, a negative decision of the Supreme Court might cause significant turbulences, as especially the confidence of international investors in Colombia is based in part on President Uribe. ---- The trade balance posted a surplus of US\$ 10.2 mn in April. This takes the ytd surplus to US\$ 363.5 mn, comparing positively to a mere US\$ 45.1 mn in the same period of 2004. Traditional exports like oil, coal and coffee benefited from strong commodity prices, while sales of non-traditional goods like food and industrial goods increased as well, especially in the Andean markets.

Mexico

Remittances from Mexicans resident abroad (mainly in the US) continue to increase at a rapid pace. The latest figures from Banco de Mexico show that remittances totaled USD 7.5 bn in the first five months of this year (+18.7% yoy). Earlier this year, Banxico forecast that a total of USD 20 bn could be reached this year, a goal that appears to be possible after last year's record figure of USD 16.6 bn. The continuing high level of remit-

tances is - in addition to booming oil revenues - a key factor behind the strong current account performance at present. In turn, this is clearly providing additional support for the MXN, which is already underpinned by an attractive yield differential vis-à-vis the dollar. --- The consumer confidence index compiled jointly by Inegi and Banco de Mexico showed its first increase for four months in June. However, the rise of 1.0% mom (1.1% yoy) still leaves the index nearly seven percentage points below its recent peak in February 2005. Consumer spending continues to be the principal support for economic growth at present. --- CPI inflation was negative in June (-0.1%), largely in line with market expectations. This brought inflation down to 4.33% yoy from 4.6% in May 2005, only slightly above the central bank's 4% upper end of this year's target band. Inflation expectations for end-2005 declined for a second consecutive month, from 3.92% to 3.79%. This suggests growing confidence amongst analysts that Banxico will succeed in squeezing inflation this year below the top edge of the 2.0-4.0% target band. It also validates the decision of the central bank at the end of last month to "de-couple" from any further rate rises in the US – effectively signaling an end to the tightening cycle in Mexico. We reiterate our view for no "corto" change in the next monetary policy meetings. --- Cuauhtémoc Cárdenas has indicated that he will not be seeking the nomination of the left-of-centre PRD in order to run for the presidency next year. His decision clears the way for Mexico City Mayor Andrés Manuel López Obrador to secure the PRD nomination virtually unopposed.

Venezuela

Car sales were almost twice as high in June this year as in June 2004 (+94%). This is a strong indication of robust economic activity, supported by improving availability of domestic credit. ---- According to the CADIVI foreign exchange authority, hard currency disbursed to companies amounted to US\$ 1.7 bn in June, the highest value so far this year. This helps explain the relatively low June inflation figure (+0.6% mom) and makes us expect solid economic activity for the second quarter. Looking ahead, we expect ample foreign currency disbursements in the coming months, as foreign exchange liquidity remains abundant due to high oil prices. This should support domestic economic activity, but will not be enough to contain inflationary pressure. We expect GDP to expand by 6% in the year as a whole and year-end inflation at 18%.



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Abbreviations:

mom = month-on-month
qoq = quarter-on-quarter
yoY = year-on-year
ytd = year-to-date
s.a. = seasonally adjusted
n.s.a. = not seasonally adjusted

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Exchange rate	date	last	one week	one month	one year	end 2004	ytd-change, %	end 2005f
Argentina	11.07.2005	2.87	2.88	2.88	2.96	2.97	3.6	2.9
Brazil	11.07.2005	2.37	2.37	2.44	3.04	2.66	11.9	2.5
Mexico	11.07.2005	10.74	10.74	10.85	11.50	11.15	3.8	11.4
Chile	11.07.2005	585	582	590	634	556	-5.0	580
Colombia	11.07.2005	2330	2340	2343	2674	2355	1.1	2356
Peru	11.07.2005	3.25	3.25	3.25	3.44	3.28	0.9	3.3
Venezuela	11.07.2005	2147	2147	2147	1918	1918	-10.7	2150

EMBI+ Spread

bps	date	last	one week	one month	one year	end 2004	ytd-change, bps
Argentina	11.07.2005	422	451	6603	4984	4707	-4285
Brazil	11.07.2005	412	400	428	633	383	29
Mexico	11.07.2005	163	158	172	215	167	-4
Ecuador	11.07.2005	798	797	816	940	691	107
Colombia	11.07.2005	318	321	343	479	333	-15
Peru	11.07.2005	201	201	193	442	220	-19
Venezuela	11.07.2005	445	452	488	628	412	33

Benchmark interest rates

%	date	last	one week	one month	one year	end 2004	ytd-change	end 2005f
Argentina, Overnight	08.07.2005	5.19	5.38	3.31	2.63	2.31	2.9	5.0
Brazil Selic	08.07.2005	19.72	19.73	19.75	15.77	17.75	2.0	18.8
Mexico Cetes 28 days	08.07.2005	9.71	9.71	9.70	6.71	8.61	1.1	9.5
Chile 90 days, PDCC	07.07.2005	2.79	2.87	3.04	1.56	2.24	0.6	4.3
Colombia Overnight	07.07.2005	6.42	6.37	6.43	6.85	6.24	0.2	7.1
Peru Overnight	08.07.2005	3.00	na	3.00	2.60	3.03	0.0	2.5
Venezuela deposits 30 days	30.06.2005	11.00	11.00	10.45	9.83	11.92	-0.9	14.5

Foreign exchange reserves

US\$, bn	date	last	one week	one month	one year	end 2004	ytd-change	end 2005f
Argentina	08.07.2005	23.5	23.1	22.4	17.9	19.6	3.8	21.5
Brazil	07.07.2005	59.4	59.9	61.3	49.9	52.8	6.6	62.0
Mexico	01.07.2005	70.0	69.3	67.1	68.5	71.6	-1.6	65.0
Chile	30.04.2005	17.0	na	15.4	16.0	16.0	1.0	16.7
Colombia	31.05.2005	13.4	na	13.3	11.4	13.5	-0.1	14.0
Peru	30.04.2005	13.6	na	13.6	10.5	12.6	1.0	13.5
Venezuela (FEM&Gold incl.)	07.07.2005	29.1	28.8	27.4	23.2	24.2	5.0	28.5

Economic activity

GDP (yo, %)	2003	2004e	2005f	Inflation %, year end	2003	2004	2005	GDP 2003, US\$ bn
Argentina	8.8	9.0	6.0		3.7	6.1	10.2	127
Brazil	0.5	4.9	3.4		9.3	7.6	6.9	495
Mexico	1.3	4.4	3.3		4.0	5.2	3.7	626
Chile	3.7	6.1	5.3		1.1	2.4	3.1	74
Colombia	4.1	4.1	4.0		6.5	5.5	5.4	80
Ecuador	2.5	7.0	3.5		6.1	1.9	2.7	27
Peru	3.8	5.1	5.0		2.5	3.5	2.0	61
Venezuela	-7.7	17.9	6.0		27.1	19.2	18.0	84

Public sector	Budget balance, % of GDP	Public debt, % of GDP	Amortization, US\$ bn	Gr. financing needs, US\$ bn
	2003	2004e	2003	2004e
Argentina	1.3	4.2	140	121
Brazil*	-5.2	-2.7	56	52
Mexico**	-0.6	-0.3	28	27
Chile***	-0.4	2.8	13	12
Colombia	-2.7	-1.2	56	52
Peru	-1.9	-1.3	48	46
Venezuela	0.2	0.0	46	39

* Amortisations only federal debt, including short term debt

** Amortisations without Cetes

*** debt, amortization and financing needs: central government only

External Sector 2004e

	External debt % of exports	Debt service s.t., % of total	Current account % of GDP	Trade Balance US\$ bn	FDI (net) US\$ bn	Import cover months
	US\$ bn	% of exports	US\$ bn	US\$ bn	US\$ bn	
Argentina	403	36	32.3	2.0	3.0	3.9
Brazil	203	12	65.6	2.0	11.7	18.2
Mexico	79	21	37.5	-1.2	-7.9	15.0
Chile	128	18	7.2	1.5	1.4	5.6
Colombia	205	11	7.3	-1.3	-1.2	2.6
Ecuador	17	9	1.4	0.3	0.9	1.1
Peru	195	10	3.7	-0.2	-0.1	2.7
Venezuela	111	22	8.3	12.7	13.8	21.4
						9.0