



Latin American Weekly Spotlight

October 4, 2004



Dresdner Bank Lateinamerika AG
formerly Deutsch-Südamerikanische Bank AG



A company of the **Allianz Group**

Argentina:	Debt exchange road shows to start in October?
Brazil:	Mixed results for the PT in municipal elections
Chile:	Strong growth in August
Colombia:	Turnaround of the Peso/US\$ exchange rate
Ecuador:	Heading for deflation?
Mexico:	Have interest rates reached a cyclical top?
Peru:	First international bond in Euro?
Venezuela:	US\$ bond with a volume of US\$ 1.5 bn placed in the market

Argentina

Export growth of 24% (yoy) in August was significantly higher than expected. Contrary to the average witnessed so far this year, not only export prices were up but also export volumes. Import growth (78%, yoy) again was high. The trade surplus reached US\$ 899 mn (Aug-03: US\$ 1.2 bn). ---- Supermarket sales grew 1.7% (mom, s.a., real) in August. Compared to Aug-03 sales were up by 8.3%. ---- The recently weak performance of the construction sector continued in August. Activity shrank by 3.9% (mom, s.a.). Growth declined to 16.4% yoy. ----- Tax collection remains buoyant, with revenues up 30.4 %yoy in September and 40.4% so far this year. We expect the primary surplus to exceed 4% of GDP in 2004 as a whole.

Outlook: The U.S. securities and stock exchange supervisory authority (SEC) approved the documentation so far handed in by Argentina. The government reportedly intends to hand over the still missing Prospectus Supplement in the next ten days. Hence, the opportunity might arise to start road shows on the exchange offers in the U.S. already in the second half of October. ---- G7 states have made some very critical remarks with respect to Argentina. They emphasized that the reforms agreed upon with the IMF were only implemented in an insufficient manner and partly went in the wrong direction. With respect to the restructuring process an acceptance of at least 80% was called for. ----- MinFin Lavagna announced that private pension funds (AFJP) in Argentina were willing to accept the government's restructuring offer as early as this week. AFJP hold around 20% of defaulted debt. ----- Consumer prices (Tuesday) are likely to have risen 0.5% mom in September, which would take yoy inflation to 5.7%.

Brazil

In Sunday's municipal elections the PT reached a mixed result. It seems that in Sao Paulo a change in power will happen as José Serra (PSDB) gained 44% of the votes, significantly ahead of Marta Suplicy (PT), with 35% (second ballot on October 31). The PT won six of the state capitals in the first round. In nine others

a second ballot will take place. In total the PT won 324 mayoral offices and 17% of the votes. Attached please find a table with the main results. On October 31 the second ballot will take place in those cities where no candidate reached the 50% mark (only in the cities with more than 200.000 inhabitants). ----- The trade balance surplus in September amounted to US\$ 3.2 bn. This confirms our expectation of a surplus of US\$ 33 bn in 2004. ----- The unemployment rate in Sao Paulo decreased for the fourth month in a row, from 18.5% to 18.3%, according to DIEESE. ----- The government's approval rate continued to increase, from 38.2% in August to 41.3% in September, according to CNT/Sensus. Lula's approval rate maintained its high level (58.8% vs. 58.1% in August). ----- The rating agency Fitch increased the sovereign rating to BB-. Thus, Fitch rates Brazil on a par with S&P and one notch ahead of Moody's; the two agencies had upgraded Brazil only recently. We expect a further upgrade next year.

Outlook: The campaign in the cities where a second ballot will take place will be on the agenda for the next few weeks. Sao Paulo will be the focus of attention. ----- The IPCA inflation (Friday) will not be as high as expected (DBLA forecast: 0.75%). At least this can be deduced from the IPCA-15 index (0.69%). However, we continue to expect further interest rate hikes in the current year. ----- The car production (probably Wednesday) is a first indicator for the performance of the industrial sector in September. The whole industrial sector has to deal with a historically low spare capacity.

Chile

Two popular cabinet members, secretary of state Alvear and minister of defense Bachelet have stepped down, apparently in order to prepare their candidature for presidential elections at the end of 2005. We do not expect negative consequences from this move, which is habitual for presidential hopefuls, as President Lagos is still very popular. ----- Industrial production increased by 9% yoy in August. Even though the growth rate is inflated by a calendar effect, there can be no doubts concerning the healthy state of the economy. This is further



underlined by the huge increase in mining production (+16.5 %). ----- The positive economic growth trend leads to an increasing number of people wanting to work, as job-seekers increased by 1.9% yoy in August, while overall population growth (above 15 years) amounted to only 1.6%. This is the reason for a rising unemployment rate (9.9% in August 2004, up from 9.4% in August 2003) even despite strong employment growth (+1.3% yoy).

Outlook: On the back of positive production figures, August IMACEC economic indicator figures should show healthy growth of around 6% yoy in August (Tuesday). - ---- Due to the solid economic expansion and high oil prices, consumer prices are expected to rise at similar rate in September as in August (forecast: 0.4% mom), taking yoy inflation to 1.8%.

Colombia

The public budget deficit in H1-04 was markedly lower than expected. Compared to the same 2003 period, the deficit declined by 6% in nominal terms, which equals a relative drop by 0.4% of GDP. Based on further rising military spending and likely concessions to opposition demands we leave our overall deficit projection for this year at 2.8% of GDP. ----- The CB's announcement to intervene with up to US\$ 1.3 bn in the foreign exchange market (in addition to ongoing auctions of US\$ put options) has apparently caused a turnaround on the foreign exchange market. The peso closed the week above the mark of 2,600 pesos/US\$, close to our year-end forecast of 2,640 pesos/US\$.

Outlook: Inflation is expected to have risen slightly in September, close to the upper limit of the central bank's target corridor (4-6% yoy). On a month-on-month comparison, consumer prices are expected to have increased by 0.3%.

Ecuador

In an attempt to attract private investment into oil fields currently operated by state-owned Petroecuador, the government launched another bidding process due to end on October 25. In the light of conflicts with foreign oil companies and ongoing discussions over the possible revision of contracts, we do not expect much interest in the process – even despite currently high oil prices. ----- Unemployment increased further in August to 10.8% and came in significantly higher than in July (9.9%) and in August 2003 (9.6%), mainly due to the fact that current positive economic growth figures are exclusively based on the booming, but not labor-intensive, oil sector. ----- For similar reasons, the H1-04 the public sector surplus came in lower than budgeted (1.4% of GDP) at US\$ 370 mn (1.2% of GDP). Com-

pared to H1-03, the surplus shrank by US\$ 209 mn. ---- - The sluggish state of the non-oil economy translates into sinking inflation rates: Consumer prices rose by 0.24% mom in September, resulting in a yoy rate of only 1.6%. While we expect somewhat higher inflation rates in the coming months and a year-end inflation of 2.3%, a slump into longer-term deflation is clearly in the cards.

Mexico

In August, the public sector posted a surplus of MXN 15 bn, which is consistent with the government's target to reduce the public deficit to 0.3% of GDP in 2004. The solid fiscal policy is expected to be a main reason for Moody's to upgrade the country's foreign currency bonds from Baa2 to Baa1, most likely still during 2004. ---- Following the sharp increase of the „Corto“, money market rates (Cetes, 28 days) rose from 7.3% to 7.6%, slightly more than expected. If price pressures have started to ease – as expected – already in the second half of September, the central bank will not have to tighten monetary policy during the remainder of the year. This also means that money market rates are already close to their top and should ease a bit towards the end of the year.

Outlook: Today Inegi will publish the consumer confidence indicator for September, which will most likely have remained unchanged at 95.6. ---- In July the leading indicator, as published by Inegi, probably fell for a forth consecutive month (Wednesday), which would confirm our outlook of a prolonged economic slowdown. ---- Gross fixed investment most likely rose by 6.5% yoy (Thursday).---- In September consumer prices probably rose by 0.75%, which would indicate that pressure on prices has eased in the second half of September (Thursday). Therefore we expect Banxico to keep monetary policy unchanged at its Friday policy meeting.

Peru

Consumer prices were virtually unchanged in September (0.02% mom), taking yoy inflation to 4% (from 4.6% in August). We expect inflation to stabilize in the next several months and that year-end inflation will come in well above the CB's target range (2.5% +/- 1 percentage point).

Outlook: Rumors of an upcoming cabinet reshuffle have intensified last week. Nevertheless we expect key positions (above all the posts of the prime and the finance minister) to remain unaffected. As the reputation of president Toledo's party (Perú Posible) was impaired lately by some scandals, we expect most of the vacancies to be filled by independent technocrats. Such a



procedure would be favorable in our view. ----- The public commission for export promotion (Prompex) expects exports in August to again exceed US\$ 1 bn. This would correspond to a yoy increase of 40%. We assume that the trade surplus (official numbers are expected to be released next Monday) amounted to more than US\$ 300 mn that month. ----- According to local press reports the government is planning to shortly issue the first euro-denominated international bond in the country's history. As the planned prepayments to the Paris Club increase next year's financing requirements by US\$ 1 bn (so far the government plans to issue US\$ 1 bn on the international markets), such a move seems reasonable.

Venezuela

Mr. Zamora, a member of the election authority CNE's leading body close to the opposition movement, has resigned. He alleged irregularities with respect to the referendum, however stating he was not able to prove them. The Supreme Court's constitutional chamber will probably name his successor, thus increasing the government's dominance within CNE. ---- The US\$ bond maturing in 2014 was successfully placed in the market (yield spread: 520 bps). As part of the transaction, US\$

700 mn in securities were exchanged against Brady bonds dating from 1990. As a result, the debt service will be reduced from 2005 to 2007 and collateral provided for part of the Bradies will be released. ----- Inflation, at 0.5% mom in September, was considerably lower than expected due to falling prices of agricultural goods (August: 1.3%). ----- The IMF is forecasting that GDP growth will slow down from 12.2% this year to 3.5% in 2005 (DBLA: 4.5%); in its „World Economic Outlook“, the institution recommends a change in economic policy to the country. ----- According to statements made by former managers of the state-owned oil company PDVSA, the company only made 20% of the investments planned for the year as a whole in the first half of the year. This means that oil production is probably not ensured even at the current level unless private foreign oil companies expand their production (currently around 1 mn bpd out of a total of 2.6 mn bpd), as hoped for by the government. ----- The unemployment rate decreased from 15.3% in July to 14.2% in August, probably reflecting increased state expenditure ahead of the referendum (August 2003: 17.8%). ---- - According to the central bank, the central government's budget deficit reached VEB 3.2 trillion (approx. 1.7% of GDP) in the first seven months of the year.

Dresdner Bank Lateinamerika AG
Neuer Jungfernstieg 16
20354 Hamburg
Germany

Economics Dept.
Chief economist: Dr. Heinz Mewes
Tel.: (+49 40) 3595 3494
Fax: (+49 40) 3595 3497
E-Mail: economics@dbla.com
<http://www.dbla.com>

Abbreviations:

mom = month-on-month
qoq = quarter-on-quarter
yoy = year-on-year
s.a. = seasonally adjusted
n.s.a. = not seasonally adjusted

"Latin American Weekly Spotlight" is published in addition to our "Latin American Spotlight" and our "Latin American Spotlight Update". All three are published in English and in German. The information contained in this issue has been carefully researched and examined by Dresdner Bank Lateinamerika AG or reliable third parties. But neither Dresdner Bank Lateinamerika AG nor such third parties can assume any liability for the accuracy, completeness and up-to-datedness of this information. The authors' opinions are not necessarily those of Dresdner Bank Lateinamerika. Statements do not constitute any offer or recommendation of certain investments, even if individual issuers and securities are mentioned. Information given in this issue is no substitute for specific investment advice based on the situation of the individual investor. For personalized investment advice, please contact your Dresdner Bank Lateinamerika branch.

Results of the municipal elections in Brazil

REGIONAL CAPITAL	CANDIDATES	RESULTS OF THE FIRST ROUND (%)	POPULATION	CURRENTLY RULING PARTY
São Paulo	José Serra (PSDB) Marta Suplicy (PT) Paulo Maluf (PP)	43.6 35.8 11.9	10,677,019	PT
Rio de Janeiro	César Maia (PFL) Crivella (PL) Conde (PMDB)	50.1 21.0 11.0	5,974,081	PFL
Salvador	João Henrique (PDT) Cesar Borges (PFL) Pellegrino (PT)	43.7 21.9 21.7	2,556,429	PT
Belo Horizonte	Pimentel (PT) João Leite (PSB)	68.5 22.8	2,305,812	PT
Fortaleza	Maroni (PFL) Luizianne (PT) Ignácio Arruda (PCdoB)	26.6 22.3 19.2	2,256,233	PMDB
Curitiba	Beto Richa (PSDB) Vanhoni (PT)	35.1 31.2	1,671,194	PFL
Manaus	Amazonino Mendes (PFL) Serafim Corrêa (PSB)	43.5 28.8	1,527,314	PFL
Recife	João Paulo (PT) Cadoca (PMDB)	56.1 27.6	1,461,320	PT
Porto Alegre	Raul Pont (PT) José Fogaça (PPS)	37.6 28.3	1,394,085	PT
Belém	Duciomar (PTB) Ana Júlia (PT)	48.9 32.8	1,342,202	PT
Goiânia	Iris Rezende (PMDB) Pedro Wilson (PT)	47.5 23.0	1,146,106	PT
Maceió	Cícero Almeida (PDT) Sexta-Feira (PSD)	42.6 26.6	849,734	PSB
Teresina	Silvio Mendes (PSDB) Adalgisa (PMDB)	48.9 25.7	751,464	PSDB
Natal	Carlos Eduardo (PSB) Luiz Almir (PSDB)	37.3 30.5	744,794	PSB
Cuiabá	Wilson Santos (PSDB) Sérgio Ricardo (PPS)	36.2 33.6	508,156	PSDB
Aracaju	Déda (PT) Susana (PPS)	71.4 18.1	479,767	PT
Florianópolis	Dário Berger (PSDB) Francisco de Assis (PP)	35.6 27.0	369,102	PPB
Porto Velho	Roberto Sobrinho (PT) Mauro Nazif (PSB)	32.0 30.8	353,961	PDT
Macapá	João Henrique Pimentel (PT) Janete Capiberibe (PSB)	41.5 29.0	318,761	PSB
Vitória	João Coser (PT) Cesar Colnago (PSDB)	37.2 34.9	302,633	PSDB
Rio Branco	Raimundo Angelim (PT) Márcio Bittar (PPS)	49.5 41.7	274,555	PMDB
Boa Vista	Teresa Jucá (PPS) Neudo Campos (PP)	56.7 21.7	221,027	PPS
Palmas	Raul Filho (PT) Nilmar (PL)	64.5 32.7	172,176	PFL

Source: O Estado de São Paulo



Exchange rate	date	last	one week	one month	one year	end 2003	ytd-change, %	end 2004f
Argentina	01.10.2004	2.98	3.00	2.99	2.86	2.86	-4.0	3.1
Brazil	04.10.2004	2.84	2.87	2.91	2.86	2.86	0.8	3.1
Mexico	04.10.2004	11.35	11.43	11.58	11.30	11.30	-0.4	11.9
Chile	01.10.2004	604	607	621	658	658	8.9	620
Colombia	01.10.2004	2630	2598	2556	2866	2866	9.0	2640
Peru	01.10.2004	3.33	3.35	3.38	3.48	3.48	4.4	3.4
Venezuela	01.10.2004	1918	1918	1918	1598	1598	-16.7	1918

EMBI+ Spread								
bps	date	last	one week	one month	one year	end 2003	ytd-change, bps	
Argentina	04.10.2004	5167	5423	5177	5353	5739	-572	
Brazil	04.10.2004	457	492	511	667	463	-6	
Mexico	04.10.2004	183	196	182	204	199	-16	
Ecuador	04.10.2004	770	786	808	1075	799	-29	
Colombia	04.10.2004	405	412	399	432	431	-26	
Peru	04.10.2004	320	316	338	338	312	8	
Venezuela	04.10.2004	480	509	536	785	593	-113	

Benchmark interest rates								ytd-change
%	date	last	one week	one month	one year	end 2003	%-points	end 2004f
Argentina, Overnight	01.10.2004	2.56	2.56	2.50	1.56	1.50	1.1	3.0
Brazil Selic	01.10.2004	16.24	16.24	15.92	19.84	16.33	-0.1	16.5
Mexico Cetes 28 days	01.10.2004	7.61	7.61	7.26	4.98	6.01	1.6	7.5
Chile 90 days, PDBC	30.09.2004	2.44	2.18	1.69	2.85	2.29	0.2	2.3
Colombia Overnight	29.09.2004	6.89	6.89	6.90	7.46	7.49	-0.6	8.5
Peru Overnight	01.10.2004	2.70	2.70	2.70	2.80	2.50	0.2	2.6
Venezuela deposits 30 days	28.09.2004	11.94	10.86	9.30	13.05	13.20	-1.3	14.0

Foreign exchange reserves								
US\$, bn	date	last	one week	one month	one year	end 2003	ytd-change	end 2004f
Argentina	29.09.2004	18.2	18.1	18.0	13.4	14.1	4.0	19.0
Brazil	30.09.2004	49.5	49.1	49.3	52.7	49.3	0.2	50.1
Mexico	24.09.2004	69.3	69.0	68.4	59.0	65.8	3.5	65.0
Chile	31.08.2004	15.8	na	15.9	15.3	15.9	-0.1	16.4
Colombia	31.08.2004	12.1	na	11.8	10.5	10.9	1.2	12.0
Peru	31.07.2004	11.1	na	10.9	10.0	10.2	0.9	11.4
Venezuela (FEM&Gold incl.)	30.09.2004	21.8	21.6	21.5	19.1	21.3	0.5	

Economic activity				Inflation			GDP 2003, US\$ bn	
GDP (yoy, %)	2003	2004f	2005f	%, year end	2003	2004	2005	
Argentina	8.8	6.5	3.5		3.7	7.0	8.0	127
Brazil	-0.2	4.5	3.9		9.3	6.9	5.8	492
Mexico	1.3	3.5	3.0		4.0	4.2	3.5	626
Chile	3.3	4.8	4.5		1.1	2.9	3.1	72
Colombia	3.7	4.0	3.7		6.5	6.0	6.0	79
Ecuador	2.7	4.8	2.9		6.1	2.3	0.9	27
Peru	4.0	4.2	4.0		1.8	4.0	3.9	61
Venezuela	-7.6	12.8	4.5		27.1	21.0	24.0	86

Public sector	Budget balance, % of GDP		Public debt, % of GDP		Amortization, US\$ bn		Gr. financing needs, US\$ bn	
	2003	2004f	2003	2004f	2003	2004f	2003	2004f
Argentina	1.3	3.2	140	154	19.8	19.8	19.1	16.3
Brazil*	-5.2	-3.1	58	57	94.2	82.1	72.1	66.2
Mexico**	-0.6	-0.3	28	28	23	29	26	31
Chile***	-0.4	2.5	13	13	0.8	0.8	1.4	-0.7
Colombia	-2.8	-2.8	56	52	6.2	5.3	8.4	7.9
Peru	-1.9	-1.5	48	46	1.1	1.3	2.3	2.3
Venezuela	0.2	0.5	45	35	10.8	4.6	10.7	4.1

* Amortisations only federal debt, including short term debt

** Amortisations without Cetes

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

External Sector 2004f									
	External debt		Debt service		Current account		Trade Balance	FDI (net)	Import cover
	% of exports	s.t., % of total	US\$ bn	% of exports	% of GDP	US\$ bn	US\$ bn	US\$ bn	months
Argentina	377	39	32.3	80	1.2	1.7	10.0	0.0	5.9
Brazil	210	12	67.4	64	1.3	7.5	32.1	9.5	5.9
Mexico	80	28	33.3	17	-1.4	-8.7	-6.0	15.0	3.5
Chile	127	18	7.7	22	1.9	1.7	7.8	2.7	5.8
Colombia	242	12	6.9	41	-1.8	-1.7	0.4	2.0	6.3
Ecuador	17	14	1.4	3	-0.3	0.3	6.8	-1.1	1.1
Peru	225	16	3.6	26	-1.5	-1.0	2.4	1.1	8.6
Venezuela	87	8	8.1	22	12.3	12.4	19.7	1.5	9.2