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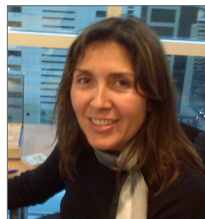
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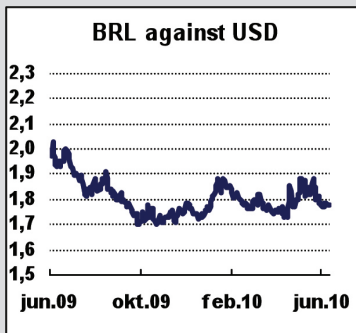
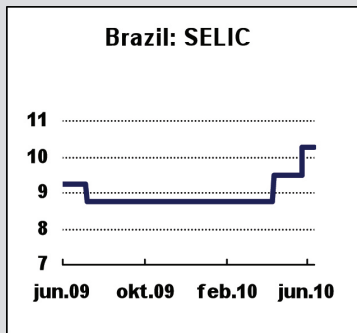
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Brazil: Dilma Rousseff ahead in the polls



Politics

Despite World Cup Soccer 2010 taking place in South Africa, the presidential campaign for the October 2010 elections continue and according to last polls, PT candidate Dilma Rousseff is now leading the polls over PSDB candidate Jose Serra. It seems as if the popularity of President Lula, the strong performance of the domestic economy and reduction in poverty are paving the path for her victory.

While PT presidential candidate, former Chief of Staff of President Lula, Dilma Rousseff has for months announced her Vice President candidate; Michel Temer from the PMDB party, President in the House of Representatives in the Congress, PSDB presidential candidate and former Sao Paulo Governor; Jose Serra has during the last months sought a partner in his plight to the presidency. The popular governor of Minas Gerais; Aécio Neves from PSDB party declined to be the Vice President candidate of Jose Serra. Senator Alvaro Dias from PSDB party was not accepted by the PSDB coalition parties. Finally, at the last day of June, consensus was reached in the PSDB dominated conservative coalition; with the indication from the coalition party DEM, congressman in the House of Representatives Indio da Costa. He is a Rio politician, 39 years old and virtually unknown in Brazil. He worked actively in Congress to pass the "clean record" legislation, banning people with legal impediments from seeking election to political office.

End of June vote survey from Vox Populi indicates vote intention of 40% in favour of Dilma Rousseff, 35% for Jose Serra and 8% Marina Silva from the small Green party. IBOPE survey from June 23 also indicated same vote intention

figures for Rousseff and Serra and was the first time Rousseff passed Serra in the polls.

It seems as if President Lula is able to transfer his vast popularity (75% approval) in favour of his candidate. Lula's active campaigning, the strong growth in the economy and reduction in poverty during his two mandates, have helped Rousseff take lead in the polls. Lula has actively campaigned for Rousseff during the last 20 months and has been fined by the Electoral Courts 6 times in this period.

After the end of World Cup Soccer in the middle of July and starting the TV campaigns, the presidential elections will enter the last decisive months.

Rousseff, Serra and Silva will have to debate on how to sustain Lula's legacy and point out and dispute their differences for the path ahead. Brazil will certainly maintain responsible macroeconomic policies, seek low inflation and a sustainable economic growth, respect contracts, etc. Social reforms will be maintained and enhanced in order to reduce poverty. Brazil needs to better its education, health, infrastructure programmes. In the latter Brazil needs to better its transportation network, highways, roads, ports, terminals, airports, etc. Brazil might enter into a new energy crunch in the electrical sector if the economy continues to grow strongly during the next years. Brazilian society waits for long due Constitutional reforms such as social security, fiscal and political reforms.

Candidate Serra points out that Brazil has world's highest interest rates, a myriad of taxes, the highest taxation level amongst emerging nations and low public investments. He further points that the public sector spends its resources poorly and is not efficient. In the campaign ahead, broadly Serra will stress a leaner, more efficient state, combined with the role of the private sector. Rousseff will stress the importance of the state in development of the economy and Marina Silva will be the green alternative to both.

Economics

Brazil continues to perform well in its economy; however uncertain and deteriorating global financial markets are influencing negatively Brazilian assets. Europe's debt crisis seems to worsen. Concerns that global markets are going towards a "double dip" a "W" recession are influencing financial markets. The Brazilian economy is growing strongly and recently inflation seems to be falling.

In order to pinpoint the strong performance of the domestic economy currently in Brazil, the market expects the Brazilian economy to grow by more than 7% in 2010. The first quarter this year posted a record growth of 9%. In the Quarterly Inflation Report released June 30th by Banco Central, the government raised its official projection of GDP growth in 2010 from 5.8% to 7.3%. Banco Central states that «strong growth recorded for GDP in the first quarter demonstrates the consolidation of the current expansion cycle of the Brazilian economy.»

According to the report, «the accommodation observed in April, industrial activity and retail sales, is not indicative of a change in trend growth, which should follow the

trajectories of sustained favourable labour market and higher confidence amongst entrepreneurs and consumers, and the strengthening of credit operations.» The report also highlights that the internal activity continues showing the dynamism of domestic demand «pointing to the sharp growth of investments, consistent with the high level of business confidence and with the backdrop of increasing the level of capacity utilization.» The report stresses also that household consumption remains «driven by high consumer confidence, by higher recurring payroll and an improvement in credit market conditions.»

The IPCA index used by Banco Central in its inflation targeting policy has a central target at 4.5% with a plus or minus leeway of 2%. IPCA inflation expectation for 2010 is above the central target of Banco Central at 4.5% for 2010 and inflation estimates for this index this year are on average 5.55%. In May this inflation index came out at 0.43% and for June it is expected to be lower. Inflation this year has been stronger. On a year to year rate, inflation is currently slightly above 5%.

On June 9th the Banco Central COPOM meeting increased the SELIC rate by 75 basis points to 10.25%. This was the second consecutive interest rate increase this year. Despite higher inflation earlier this year, inflationary expectations are now tending lower. More of concern is the current strong expansion in the domestic economy. Therefore, further SELIC interest rates increases are expected this year. By year end, it is expected that the SELIC rate will be at 12%.

The Real ended June quoted at BRL 1.80 per USD, a slightly lower than May at BRL 1.82 per USD. The NOK / Real currency quote is currently at NOK 3,58 per Real. Historically, based on the last 5 years, this currency exchange average quotation has been on the range of NOK 3.00 per Real plus / minus 10%.

The performance of external accounts continues positive, but are deteriorating. Increasing current account deficit worries. The trade balance in June posted a surplus of USD 2.278 billion down from USD 3.444 billion in May. The June surplus came from USD 17.095 billion in exports and USD 14.817 billion in imports and was the lowest June surplus since 2002. For the first semester 2010, the trade balance shows a surplus USD 7.9 billion down from USD 13.9 billion same period last year. In other words, a fall in the trade surplus of 44% compared to last year. Imports grew first semester this year 43.9% to USD 81.3 billion and exports grew by 26.5% to 89.2 billion.

The current account posted a deficit in May of USD 2 billion in relation to a deficit in April of USD 4.6 billion. So far this year, the current account deficit is almost USD 19 billion. Foreign direct investments in May were USD 3.5 billion and so far this year USD 11.4 billion.

International reserves were at the end of May at USD 253 billion. By the end of April, total external debt compiled by Banco Central including short, medium and long-term external debt of public and private sectors was USD 218.3 billion.

Public sector accounts have deteriorated during this year. Despite fiscal income increasing due strong performance in the economy, public spending has increased strongly through employment, wage increases and anti cyclical measures. The net debt to GDP increased during April to 41.4 % of GDP.

Finance

The IBOVESPA Sao Paulo stock market index ended June at 60.938 points, a decrease of 3.4% during the month and posted a fall of 13.4% during second quarter. In June, the stock market index in USD fell by 2.5%.

As to the bond markets, the BR 40 ended June at 137.7 basis points over US Treasury Bills slightly up from 135.4 basis points from one month before. Brazil risk premiums as measured by the JP Morgan EMBI+ (an index of risk premiums on Brazilian government bonds traded abroad) was quoted at the end of June at 252 basis points.

Forecasts

The Focus report, an economic survey carried out by Banco Central amongst 100 financial institutions, came out at the last week of June with the following projections for year end 2010; IPCA inflation index at 5.55%, the GDP growth for 2010 is estimated at 7.13%. Year-end projections for external accounts show a trade surplus at USD 15.4 billion, foreign direct investment at USD 35 billion and current account deficit of USD 47.8 billion. The SELIC benchmark interest rate is expected to end 2010 at 12 % p.a. and the foreign exchange rate is expected at the end of the year at BRL 1.80 per USD. The net public sector debt is expected to end 2009 at 41% of GDP. For 2011 the main estimates are GDP growth at 4.5% and IPCA inflation at 4.8%, current account deficit at USD 58 billion and trade surplus at USD 7 billion. Possible deterioration in public accounts is causing concerns.

Story of the month

Environmental risk in Brazil is increasing. Environmental licensing is becoming more challenging and uncertain in Brazil, at all levels of public administration, federal, state and municipal levels. In reality this licensing process has become more time challenging, costly and difficult to obtain, usually delaying and increasing costs in projects. In some cases, environmental licences are not granted at all, having to abort projects or to re-locate. An example of this is the new OSX Shipyard project probably being transferred from state of Santa Catarina to Rio de Janeiro state. Projects with environmental licensing and authorizations in place have a higher values once these processes are authorized and in place.

Petrobras approved in June the 2010-2014 investment plans, the oil-industry's largest investment programme, which seeks to more than double its output to 5.38 million barrels a day by 2020. The company is looking to develop reserves in the so-called pre-salt region off Brazil's coast. The investment plans amounts to USD 224 billion by 2014.

A total of 95 % of the funds, USD 212.3 billion will be invested in projects in Brazil and the remainder abroad. The new investment program stipulates that 53 % of funds will be earmarked for hydrocarbon exploration and production

projects, 30 % for refining, transportation and commercial sales, 8 % for the company's gas and electricity business and 5 % for its petrochemicals unit.

According to the company, the investments will be financed with USD 165 billion in operational earnings (based on an average price of oil of USD 80 per barrel) and USD 58 billion raised on capital markets. The USD 58 billion includes an amount to be raised as part of a capitalization plan, which includes Petrobras issuing to the government shares in exchange for the right to explore unlicensed areas estimated to contain 5 billion barrels of reserves.

The Brazilian state which owns 32 percent of Petrobras and controls the company through its voting shares, has announced that it will buy enough shares to maintain its ownership stake. The company has announced its intention in raising money to help fund the spending through 2014 in the world's largest oil-industry investment program.

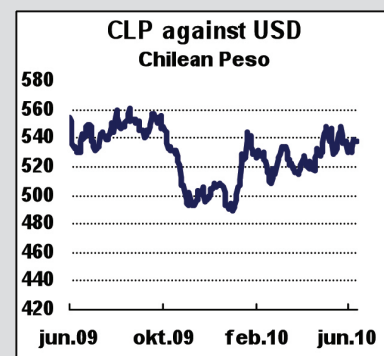
Petrobras global share sale is now postponed until September this year. The company seeks to place shares in the market for as much as USD 25 billion, while the government intends to trade 5 billion barrels of proven oil reserves with the company. Petrobras awaits a decision from ANP on how much it will need to pay for the 5 billion barrels of oil. The oil will be exchanged for new stock in Petrobras. According to Energy Minister Zimmermann Brazil may sell these oil reserves to Petrobras between USD 5 - 10 per barrel.

Meanwhile Petrobras's total production of oil and natural gas rose 2.1 % in May from a year earlier. Output climbed to 2.599 million barrels of oil equivalent a day in Brazil and abroad, from 2,547 million barrels in May 2009.

Regarding changes in the regulatory framework for the oil sector, Congress still needs to approve legislation pertaining to exploration and production of the new pre-salt areas. So far Congress has only passed one of the four laws, allowing the government to transfer oil reserves to Petrobras in order to increase the capital of the company.

On June 23, Petrobras announced a USD 1 billion line of credit from GIEK. Petrobras will use the loan to buy equipment and services from Norwegian companies.

Chile: extraordinary times calls for tax raise



Politics

Right-of-centre governments would not normally be expected to raise taxes. But these are not normal times in Chile. During his election campaign, Mr Piñera promised selective tax cuts. But that was before central-southern Chile was badly hit by the earthquake. The \$8.4 billion reconstruction plan unveiled by Mr Piñera on April 16th involves an extra \$3 billion in taxes over the government's four-year term, with the rest of the money to come from Chile's sovereign wealth fund, bond issues and cuts in other public spending or asset sales. Private business, which suffered uninsured damage of some \$6.7 billion, expected the tax rises but did not welcome them. They include a temporary rise of 3% in corporate income tax. The mining industry, sited mainly in the north and little affected by the quake, was put on the spot by a proposed "voluntary" increase in royalties that it can only refuse at the expense of its public image. President Sebastian Piñera's government plans to raise \$600 million to \$700 million by introducing a sliding tax rate on mining companies' profits to help repair damage. However, the Senate recently rejected the proposal, which likely will be debated in a joint committee of Congress soon.

Despite the complaints, the plan looks balanced. The government will this year withdraw \$400m from the sovereign fund (and \$300m from a defence kit) and issue a \$1 billion bond. With \$8 billion expected to come in from abroad in insurance payments, heavier reliance on foreign financing would have risked making the currency even stronger, pricing Chile's exports out of foreign markets. The peso has appreciated by 29% against the dollar since the end of October 2008.

Economics

Chile's economy recovered faster than forecast from the 8.8-magnitude earthquake and tsunami that struck Feb. 27, which killed 500 people while smashing ports, roads and factories across an area of the country responsible for 17 percent of gross domestic product. Damage from the disaster may total \$30 billion, equivalent to about one sixth of last year's GDP.

Economic activity as measured by the central bank's IMACEC index rose 4.6 percent in April from a year ago and 8.2 percent from March. Chile's economy grew at the fastest monthly pace in more than a decade in April. Reports in late May from the National Statistics Institute and National Chamber of Commerce showed a 22 percent year-on-year surge in April retail sales.

However, taking into account the deteriorated situation in the European economies and potential worse scenery in US and China's economic activity, there is some fear that there could be an international economic decline that could impact the domestic economy.

Prices rose 0.4 percent in May, pushing the annual pace of inflation to 1.5 percent, the highest since June. A bank survey published June 10 showed economists see year-end inflation at 3.5 percent, above the central bank's target of 3 percent. The inflation forwards market is pricing in inflation of 3.61 percent in December, according to Banco Santander prices.

Finance

Chile's central bank raised its benchmark interest rate for the first time since September 2008 with a bigger-than-forecast increase as the economy's fastest expansion in more than a decade pushes inflation back up toward policy makers' target (1% from a record low 0.5%). The larger-than-forecast rate increase marked the beginning of the process of normalization of the current significant monetary stimulus. The bank will continue to remove monetary stimulus at a pace that depends on the evolution of domestic and external macroeconomic conditions.

Chile's benchmark equity index, the IPSA, rose to a record 4,060.33. The gauge is up 14 percent this year compared with the MSCI EM Latin America index's 5.1 percent decline. Investors have been entering Chile's stock market both as a relative haven during global volatility and because of the economy's prospects.

The Minister of Finance said April 23 in New York that Chile plans to sell \$1.5 billion worth of 10-year dollar and peso bonds abroad this year. The country may sell as much as \$3 billion of bonds and warrants, according to a June 15 filing with the U.S. Securities and Exchange Commission. Chile will use the proceeds for general purposes, the filing said.

Business: HidroAysen Project

The controversial multibillion-dollar hydroelectric project HidroAysén was granted an additional four-month extension to complete its third environmental impact study (EIA).

The project includes the building of five dams in southern Chile's Aysén region (Region XI). The project will provide an estimated 2,750 MW to the central Chilean energy system (SIC) and annually generate 18,430 GWh, almost half of the energy consumption of the SIC in 2007. The SIC provides energy to 90 percent of Chile's population.

The mega-dam project has been stuck in the EIA process since August 2008. The latest extension will give the company until Oct. 29, or a total in the end of nine months, to respond to the second set of concerns.

The company informed reasons for the delay to have time to compare engineering studies done so far with input from international experts knowledgeable about this type of project of great complexity and magnitude, in countries such as Canada, Iceland, Norway, and Brazil, among others.

Criticism of the project expands beyond the EIA process. Critics say the project will destroy one of the world's few remaining pristine regions and southern Chile's fledgling tourism industry.

Recently, energy demand in Chile has been only 5,000 to 6,000 MW a day for a system that can produce more than 13,000 MW per day. Chile has traditionally relied heavily on hydroelectric power and has recently emphasized diversifying into "nonconventional renewable energy," such as wind, tidal, solar, and thermoelectric.

Critics also point to the more than 1,240-mile-long, high-tension transmission lines that will carry the electricity north to the SIC. However, the transmission lines represent an additional multibillion dollar investment that will traverse unique regions of southern Chile and potentially create conflicts with local communities, pushing the cost of the project above US\$7 billion.

The Chilean company Colbún S. A. and the Italian-owned Endesa own HidroAysén jointly, with 49 percent and 51 percent of shares respectively.

Forecasts

The central bank increased interest rate on June 15 for the first time since September 2008. Growing consumer spending and a lag in output caused by the earthquake in February may help push inflation to 3.5 percent in 12 months. Policy makers may raise rates to 2.75 percent in six months, 4.25 percent in 12 months and 5 percent in 18 months, according to specialists' survey.

Chile's peso, which has appreciated 2 percent in the last month to 532.75 per U.S. dollar, will reach 530 in the short term.

The economy may grow 4 percent to 5 percent this year as consumer prices rise 3.8 percent. In April, the Central Bank forecast the economy would expand 4.25 percent to 5.25 percent with annual inflation of 3.7 percent.

Domestic demand may rise 15 percent this year, faster than the 12 percent it expected in April.

Story of the month

Chile became the only Latin American country rated AA after an upgrade by Moody's Investors Service, which cited the country's fiscal savings and "financial resilience" in the wake of a February earthquake. Moody's boosted the rating one level to Aa3, the fourth-highest investment grade, from A1. The outlook on the rating is stable, Moody's said in a statement.

Chile's economy is recovering faster than analysts forecast from the earthquake. The country's \$11 billion in an offshore copper savings would be more than enough to cover its \$8.4

billion in financing needs following the quake, Moody's said. Chile plans to tap overseas debt markets for the first time in six years to help finance the reconstruction.

Years of solid macroeconomic policies, including a structural fiscal surplus rule meant to smooth government revenues and expenditures, positioned Chile well to deal with the global economic crisis and the financial aftermath of the earthquake," Moody's analyst Gabriel Torres said in a statement.

Mexico: High-level opposition candidate assassinated



Politics

On June 28th, in the border state of Tamaulipas, Rodolfo Torre Cantu, of the opposition Institutional Revolutionary Party (PRI), and four members of his group were gunned down. Torre, who's campaign focused on fighting violence, had a strong lead in polls ahead of gubernatorial elections July 4th. Torre is the highest-level politician to be assassinated since presidential candidate Luis Donaldo Colosio was killed in 1994. The assassination may be related to drug gangs fighting for control of smuggling routes across the Rio Grande into southern Texas.

More than 22,000 people have been killed by organised crime in Mexico since 2006. The government estimates that violence cuts 1 percentage point from gross domestic product each year.

The state of Yucatan held local elections on May 16th. The PRI gained ground in the elections and thereby increasing its chances of gaining further in gubernatorial elections on July 4th. This could also increase the party's prospects for returning to the presidency in 2012. The PRI, obtained 49.9% of the votes in the election, compared with 40.6% for the ruling Partido Acción Nacional (PAN).

Economics

Mexico's economy could grow a bit more than 5 percent this year as it emerges from deep recession. Finance Minister Ernesto Cordero expects growth between 4.5 percent and 5 percent. Mexico's official forecast for growth in 2010 is 4.1 percent. The economy is recovering from a 6.5 percent

contraction last year, the biggest slump since 1932. The central bank does not foresee that Europe's debt crisis will have a strong negative impact on the recovery of Mexico since the U.S. economy, which buys around 80 percent of Mexico's exports, is expected to continue to grow. The external sector continues to benefit from the ongoing recovery of the US. In April, exports soared 43.2% year-on-year, the largest expansion since January 1995. However, despite the recovery observed in recent months, exports still remain below pre-crisis levels in nominal terms, with the 3-month average in exports at USD 72.0 billion in April, below the peak of USD 79.9 billion reached in July 2008. The recovery of remittances from workers abroad also continues. In April, remittances reached USD 1.8 billion, a 0.2% increase compared to the same month last year, representing the first increase in annual terms in seventeen months. Remittances are recovering as the U.S. economy is now adding jobs, particularly in the construction sector. However, remittances are still considerably below the levels observed before the global economic downturn. After oil exports remittances represent the second most important source of foreign revenue.

According to the Mexican central bank inflation should remain within policy makers' forecasts for the rest of the year. Mexico's consumer prices fell more than forecast in the first half of May and annual inflation slowed to less than 4 percent as costs decreased for electricity, vegetables and tourism packages. The central bank forecasts an annual inflation rate of 4.5 percent to 5 percent in the second quarter and 5.25 percent in the second half of the year.

The central bank has kept its benchmark interest rate unchanged at 4.5 percent. Analysts do not expect an increase before January 2011.

Business

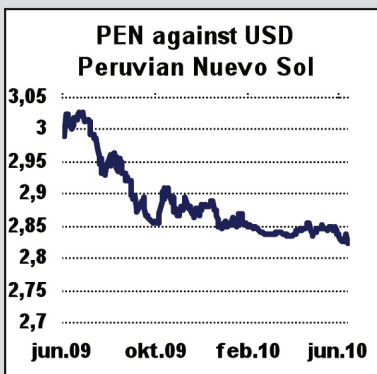
Banco Santander will pay USD 2.5bn to buy back a 24.9% stake in its Mexican operation, Grupo Financiero Santander, from Bank of America. The sale price values the entire unit at around USD 10 bn and represents a 56% gain for Bank of America since it bought the stake from Santander.

The Mexican state-owned oil company - Pemex, has declared that it had a USD 1.1 billion foreign-exchange gain last year due to the peso rallying.

Finance

The Mexican peso fell as news of the assassination of Rodolfo Torre Cantu undermined investors' confidence in the country's stability. The currency weakened 0.7 percent to 12.7332 per U.S. dollar 28th June. The IPC stock index fell 0.1 percent to 32,568.19.

Peru: Strong growth



Politics

Regional elections will be held in October, and this could make President García vulnerable to populist pressures. However, his approval rating is at only 26%, which is an all-time low. García is constitutionally barred from standing for re-election in 2011. Luis Castañeda, the mayor of Lima, and leader of the small right-of-centre Solidaridad Nacional (PSN) is currently leading in the polls. Another strong candidate is the daughter of the controversial former president, Alberto Fujimori; Keiko Fujimori. She is the radical right leader of the Fujimorista congressional bloc and her campaign promoting free-market policies is gaining considerable ground. Ollanta Humala of the Partido Nacionalista Peruano (PNP) is also expected to run for election. In the 2006 election he ran a radical nationalist-populist campaign mostly appealing to voters in rural areas, but he is now signalling a more moderate image in order to appeal also to urban voters.

President Alan García is facing increased social unrest. The social conflicts have mainly been located in mineral and energy-rich regions of the country, where local populations have opposed several major investment projects. The Economist Intelligence Unit (EIU) predicts that such conflicts are likely to continue, despite the government's efforts to increase consultations with local communities in advance of investment projects in mining and oil exploration. Congress has enacted a law regulating the right of indigenous peoples to prior consultation on matters affecting their collective rights and quality of life. However, the law is not enough to effectively reduce social conflicts over the exploitation of natural resources. The EIU predicts that protests and road blockages related to mining projects and well as against certain infrastructure works will continue.

Economics

Peru's economy is still among the best performers in the region. GDP growth accelerated in the first quarter of 2010 to 6% year on year (the highest rate since the last quarter of 2008) and to 1.6% on a seasonally adjusted quarter-on-quarter basis. Growth was led by a recovery in domestic demand, which grew by 2.5% in seasonally adjusted quarter-on-quarter terms and by 8.1% year on year. In April, growth accelerated further, to 9.3% year on year.

The interest rate was raised to 1.75 percent from 1.50 percent in June.

The central bank estimates that the economy will expand 6.2 percent this year, while the IMF expects Peru's economy to grow 6.3 percent in 2010. This is the fastest in the region.

Annual inflation entered the central bank's 1 to 3 percent target range for the first time this year. Prices increased 1.04 percent from a year earlier and 0.24 percent from April.

The government aims to cut the fiscal deficit to 1.6 percent this year from 1.9 percent last year.

Business

From a level of USD 4.4 billion in 2009, investment is estimated to increase by almost 60% to USD 7 billion this year and further increase to USD 8.4 billion in 2011.

Peru's gold, silver and copper production declined in May compared to the same period last year according to the government. Gold production dropped by almost 11%, copper production in May fell just over 4%, while silver production dropped by 8%.

The Ministry of Production (Produce) has published a Regulation of Fishery Oversight (ROP) of the anchovy resources for direct human consumption, in a bid to preserve their sustainability, regulate artisanal fishing and guarantee the food security. The new norm puts forth a group of measures that impact the national level, oriented at promoting and increasing the consumption of pelagic fish in the population. The Government seeks to increase consumption from two to four kilos annually towards late 2011 and help to reduce the levels of malnutrition. Ship owners that seek to participate in the fishery must possess the sanitary technical protocol granted by the National Service of Fisheries Health. Financial support can be obtained through credits granted by the National Foundation of Fishing Development (FONDEPES). According to the latest Statistics Bulletin authored by Produce, 47,400 tonnes of anchovy were landed in April, that is, 94.3 per cent less than in the same month of 2009, when 821,300 tonnes were unloaded. Meanwhile, 387,300 tonnes of anchovy were landed between January and April, 59.6 per cent less than in the same fourth-month period of 2009.

Finance

The Peruvian sol has gained 1.5 percent this year, the sixth-best performance among 26 emerging market currencies tracked by Bloomberg.

Story of the month

The cost of protecting Peruvian bonds against non-payment for five years has decreased by 0.46 percentage points, to 146 in the past year. Investors believe Peru will win rating increases after the International Monetary Fund positive growth estimates. Rising foreign- direct investment in mining and energy as well as record gold prices is seen as the drivers of the strong growth. Fitch Ratings lifted its outlook on Peru's rating to positive on June 2, citing its "solid" economic recovery.

Argentina: Successful debt swap



Politics

President Cristina Fernández de Kirchner has had a bad presidency. There is no other way to put it. Power shortage, high inflation, economic slowdown in 2009 and constant farm conflicts has made her popularity plummet. In Argentina, only one thing will make the public attention shift from the constant domestic turbulence to something else: The world cup in football.

And now, in the midst of an exciting cup for the Argentine national football team - as the pressure drops a bit, the Kirchners use this window of tranquillity to re-position the president's husband as a presidential candidate for the 2011 election.

Nestor Kirchner was the preceding president before his wife, and on May 15, in a political meeting he revealed his ambitions of returning to office. At the same time the government has concluded a relative successful debt restructuring, and the economy has picked up a bit. However, the election is a long way off still, and when the World Cup ends, new obstacles will for sure appear.

Economics

Argentina's latest debt swap offer has been classified as a success by the government, surpassing the 60% acceptance goal. At closing on June 22, the acceptance rate was at 66%. Including the restructuring from 2005, this means that 92,4% of Argentine total defaulted debt from 2001 has been restructured. The Economist Intelligence Unit (EIU) believes this puts the South American country on track to re-enter the international financial markets.

And in all honesty, this acceptance rate is impressive, given the period in which the offer has been on the table with renewed worries on sovereign defaults, mainly concerning Greece. However there is still a small portion outstanding, and some of the investors might still seek legal actions to gain access to Argentine frozen assets.

There have been plans of issuing a USD 1 bn global bond later this year, but according to the Argentine economy minister Mr Amado Boudou, this will not happen if the yield

is above 10%. Currently, Argentina's benchmark dollar bonds are trading at above 10% in the secondary market, according to EIU.

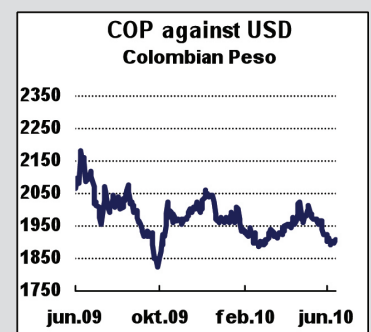
Argentina probably has the means to finance their budget on domestic funds this year, but there are still doubts about the financial strength and political turbulence related to the presidential elections in 2011.

The Buenos Aires Herald reports that economic growth in Argentina in May, year-on-year, was at 9.7%, and during the first five months of 2010 at 6.5%.

Story of the month

Diego Armando Maradona has once again become a national hero in Argentina. His national team has so far in the World Cup in South Africa scored the most goals of any team (before the quarter finals).

Colombia – Santos' victory



Politics

Former defence minister, Juan Manuel Santos, won the second round of the presidential elections on June 20. In the second round against former Bogota-mayor Antanas Mockus he won with 69% of the votes against Mockus' 28%.

The victory is by analysts looked upon as a vote for continuity of the extremely popular former president Álvaro Uribe's economic and security policies. The voter turn-out in the second round was poor – less than 50%, mainly attributed to world cup matches on TV and bad weather.

The new president has said he will continue the close ties with the US in Colombia's foreign policies, being one of the country's main allied in South America. Mr Santos has inherited a strained relationship to his neighbours Venezuela and Ecuador. This is not expected to change for the better anytime soon. Venezuelan president, Hugo Chávez has proclaimed that Mr Santos poses a threat to the regional stability – most likely a play to position himself domestically before congressional elections in Venezuela in September.

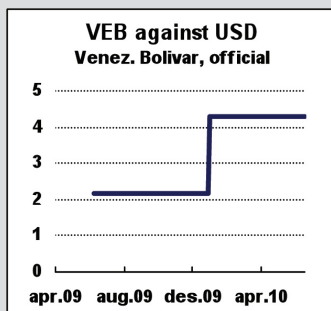
Economics

The other main challenge for the president-elect lies with the economic development. The growth forecast for 2010, according to the Economist Intelligence Unit (EIU) is of 2.5%, well behind the regional drivers: Chile, Brazil and Peru.

Exports are very dependent on the US market, since neighbouring markets. As exports to Venezuela and Ecuador is affected by the diplomatic disputes, and the US domestic market still struggles with depression, there is not much upside on this either.

However, as IEU puts it: On the plus side, Colombia's precautionary IMF flexible credit line which was renewed in May for US\$3.5bn, and a relatively comfortable reserves cushion will support investor confidence during 2010-11. Growth should also pick up in 2011 on the back of improved investment and rebounding consumer confidence and domestic consumption. The Economist Intelligence Unit forecasts growth of 3.8% in 2011.

Venezuela – Recession



Politics

The political agenda of Venezuela is dominated by the congressional elections in September 2010. It is expected that the ruling party, PSUV, of Mr Hugo Chávez, will lose to the opposition parties. Before the election, it is expected that the ruling party will try to boost support by introducing reforms.

It is also expected that there could be further crackdowns on private media critical to Mr Chávez and his party. Already, opposition leaders are being removed from public offices in order to limit their influence in the run-up to the election.

The Economist Intelligence Unit's central forecast scenario is that the PSUV will retain an overall majority; there is a significant risk that the opposition could strip the PSUV of a majority. Regardless of the outcome, dissatisfaction with the authorities will continue to build in 2011. This will be fuelled by the deepening economic recession, high inflation and persistent violent crime. Although the immediate risk of a general electricity crisis appears to have abated of late, the risk of renewed problems also will sustain public frustrations with the government.

Economics

Year-on-year real GDP the first quarter of 2010 deteriorated 5.8%. Quarter-on-quarter, the development was even worse, with a deterioration of almost 17%. The Economist Intelligence Unit (EIU) writes in a report that fixed investments dropped 27.9% - the largest drop since 2003, reflecting the worsening in the business climate.

The oil sector dropped sharply, and the manufacturing sector was even worse hit by energy shortages across the country.

The Economist Intelligence Unit has altered its real GDP forecast for 2010 from a contraction of 6.7% previously to 5.5%, but this reflects a much larger-than-expected contraction of import volumes rather than any recovery of economic fundamentals. Even our revised forecast makes Venezuela the worst performing economy in the Latin American region and among the weakest globally, with even the Greek economy expected to post a smaller contraction.