

Macroeconomics

17th February 2006

Iberia & Latin America

Mixed evidence

- ▶ GDP grew 0.3% in EMU countries in 4Q05, slowing down from the levels posted in the previous three months. On an annual basis, Euroland GDP expanded 1.3% in 2005, which compares to the figure of around 3.5% in the US. Despite the deceleration seen at the turn of the year, the recent upbeat evidence for Q1 suggests that any weakening should only be temporary in nature. In the first quarter of 2006 EMU GDP looks set to expand above an annualized rate of 2%.
- ▶ Short term interest rates should continue to approach more neutral levels. The Federal Reserve is expected to stop at 5%, as the US economy is seen to slow down in the second half of the year, while the European Central Bank should deliver at least two more hikes each of 25bps starting in March.
- ▶ In Portugal, the economy is expected to have stagnated or registered a meagre advance in the last quarter of 2005. For the year, we continue to expect a 0.3% growth rate. Although most economic data released to date in 2006 points to the persistence of low or negative the deterioration has to some extent been halted, with some sectors showing signs of improvement. In particular, activity data in the industrial sector has been recovering and some survey indicators show an upward trend.
- ▶ Presidential elections in Brazil and Mexico should be the focus of attention from market participants, primarily because of the high uncertainty attached to the election outcomes in both countries. On the economic front, we continue to highlight the upward trend of inflation in Argentina, the relative positive economic data emerging from Brazil, and the maintenance of a lower than expected economic performance in Mexico.

Key Features

	Page
- Euroland	2
- Financial Markets	3
- Portugal	4
- Spain	5
- Argentina	7
- Brazil	8
- Mexico	9
- Forecasts	12
- Key Market Data	13

Available on our website:
www.bpi.pt/equity, **BPI Online**,
and Bloomberg at **BPIR**.

Analysts

Ana Paula Carvalho
paula.goncalves.carvalho@bancobpi.pt
Phone (351) 21 310 1187

Pedro Ferreira da Silva
pedro.gomes.silva@bancobpi.pt
Phone (351) 21 310 1070

M^a Teresa Gil Pinheiro
teresa.gil.pinheiro@bancobpi.pt
Phone (351) 21 310 1097

Telefax (351) 21 353 5694

EUROLAND

- **The economy slowed down marginally in 4Q05** despite strong survey evidence. GDP grew 0.3% in 4Q05 and decelerated marginally on homologous terms to 1.7% from 1.8% in 3Q05. According to still preliminary readings, the Eurozone GDP expanded 1.3% annually in 2005, compared with 2.1% in the previous year.
- Survey data improved markedly at the turn of the year. The **Purchasing Managers Indexes attained the highest levels in about two years**, and the economic sentiment index reached the four-year highs. Overall, the expansion is seen to be spread across all sectors and countries.
- **Recent economic data suggests that activity will pick-up in Q1**, and most of the analysts expect the GDP to expand around 2% annualized rate. In fact, the Eurozone composite PMI index rose for the fifth consecutive month in January, suggesting further robustness ahead.
- Despite the broad positive picture, some mixed signals emerged recently. In particular, the overall gain in the PMI index has been driven by the positive behaviour of the index in Germany, which surprised on the upside. Readings for the Italian economy have also been favourable, but the reports related to France and Spain disappointed, both in the manufacturing and services sector.
- After a period marked by some common strength, shared by the largest economies, these were the first tentative signs of renewed divergence. However, we do not consider they should put at stake the improving economic trend in the region. On the contrary, it could be the first sign of a slowing trend in credit induced expansions while countries more externally exposed should continue to profit the most.
- In particular, **Germany looks set to continue to be the rising star of this cycle, at least for this year**. We highlight the results of the EC half-yearly survey of investment intentions in the industry. The survey points to strengthening capital expenditure in the region, strongly led by Germany, where firm's investment plans rose markedly, in particular in the consumer goods sector, which is good news for growth going forward.
- The **headline Eurozone inflation rate remains volatile led mainly by the swings of energy prices and should not fall below the 2% mark at least until middle of the year**. The core index remains stable but it started recently to rehearse a slight upward trend. Overall, **inflationary pressures remain contained** but prices remain sticky and it should be worth tracking wage negotiations which are now taking place.

FINANCIAL MARKETS

- The **European Central Bank should hike its key rates by an additional 25 bps** in its next regular meeting, which will take place in March, the 2nd. The robustness of economic data and inflation behaviour, pressured by oil prices, should validate another step forward into the process of normalizing the euro's short-term rates. Going forward, **we still expect at least another 25 bps hike in 2Q06**.
- Meanwhile, **the Federal Reserve approaches the end of a long tightening cycle**. As expected, in its first testimony to the Congress about the US monetary policy, Mr Bernanke has provided a speech in line with the recent FOMC statement saying the economy is running close to capacity and acknowledging the existence of upside risks to inflation. Overall, Mr. Bernanke reinforced market expectations, which have recently approached **our vision that the federal fund rate should reach 5% by the middle of the year**. The simplicity and clarity of the views expressed by the new Fed Chairman look remarkable. Bernanke explicitly stated that the inverted yield curve does not signal a US slowdown, noting the weakening of the historical relationship between the slope of the yield curve and the economy strength during the last decade. According to the Fed's chairman, the low real interest rates provide one of the most important reasons why this time should be different. Despite the doubts about the timing and extent of the expected deceleration in the US economy into the year-end, economic data continues to paint a positive picture. Survey indicators keep on pointing to robustness going forward and the labour market continues to be the main warranty of a lively consumer, at least for the next couple of months. Overall, we still expect the fed-funds rate to end this cycle at 5%.

LONG TERM INTEREST RATES

- The slope of the US Treasury yield curve has been occasionally visiting negative ground. However, in our opinion, this situation should not signal problems of economic sustainability ahead. Instead, **the behaviour of the fixed income market, which is expected to persist in the next couple of months, reflects both the Federal Reserve monetary policy and structural factors conditioning the longer maturities of the yield curve**. The growing need of Government bonds by institutional players, mainly pension funds at stake with aging trends, faces a relatively scarce supply. Official foreign institutions do also have a role in this process, namely China's central bank which has now the world largest foreign reserves and a large share invested in US Treasuries. However, we do not consider there is a strong risk coming from this situation as their policy should not change markedly in the short to medium term.
- The **Euro government bond market looks more vulnerable than its US counterpart**. If the more upbeat scenario is confirmed in the Eurozone economies, ECB could surprise and be more aggressive than what has been priced in the market. On the opposite case, if growth falters worldwide, the US Treasury market has more room to gain. Hence, in the near future the US Treasury market should outperform and the spread in the 10 year maturities should marginally decline.

PORTUGAL

- **GDP should have stagnated or registered a meager advance in 4Q05.** For the year we continue to expect a 0.3% growth rate.
- According to data released so far, **private consumption should have grown moderately in 4Q05**, albeit with a better performance than in the previous quarter. Auto sales accelerated in December, but still registered negative quarterly growth. Activity data in the retail sector reveals lack of dynamism. Confidence indices, though improving from 3Q05, stabilized at low levels at the end of the year. The **poor labour market environment provides scant support for the consumer activity**. In fact, unemployment rate increased to 8% in 4Q05 from 7.7% in the previous quarter. Unemployment should stay at historical high levels in the near future, reflecting both the economic sluggishness and the impact of structural measures that are being implemented by the non-financial sector.
- **Capital formation is also expected to improve on a quarterly comparison, but it should stay at negative levels.** Cement sales and building permits continued to contract, still at a decreasing pace; commercial vehicle sales remain volatile, but in negative ground. Imports and production of equipment goods show a similar pattern.
- **External demand should also improve from the 3rd quarter onwards**, as exports accelerated more than imports. For the whole year, imports grew faster than exports: 5.7% between January and November, vs. 2.4% for exports. However, **this performance has been mostly due to energy products**. Without fuel, imports expanded only 1.2% from year ago levels, highlighting the huge dependence of the Portuguese economy from oil. We recall that according to the Bank of Portugal estimates, the hike in oil prices should have shaved around 0.6 percentage points from overall GDP growth in 2005.
- **The supply side of the economy has been registering a positive performance, namely in the industrial sector.** Data for 4Q05 has been positive, as industrial production rose 4.6% from 3Q05. Furthermore, the y/y rates of growth revealed an acceleration of industrial output, suggesting that this positive trend could be sustained going forward. Industrial orders have also been improving, both domestic and external orders, confirming favorable prospects for the industrial sector.
- **Most of economic data released so far in 2006 remains at low or negative levels but have stabilized and there are signs of slight improvements in some sectors.** The Economic Sentiment Index, calculated by the European Commission, maintained a favorable bias in January, reaching 90.8, far above the minimum of 2005 reached last June (83.3). This performance has been mainly due to the improvement performed in the sectors of retail trade and construction.
- **In the near future the economy should benefit from dynamic external economies**, in particular the revival of euro zone partners. However, **several limiting factors should continue to be in place, namely the huge energy**

bill, the fiscal restraint and the rise in interest rates. All considered, we expect the economy to continue expanding slowly, probably sub-par, as most of the restraining factors should not ease on the short run. However, the pattern of growth should become healthier, as expansion will increasingly be supported by capital formation and exports.

- **Average inflation rate ended 2005 at 2.3%, matching our expectations. For 2006 we project a slight rise to 2.5%**, reflecting mainly energy prices and the hike in tax rates in the middle of 2005. However, there is a downward bias in our forecast as prices could behave better due to a sluggish domestic demand.
- The state budget deficit should be slightly better than official forecasts for 2005, which would be in line with our expectations. According to still preliminary figures, the central government deficit reached € 9 097mn against € 9 346.8mn projected in the 2006 Budget. Furthermore, provisional balances reached by the remaining sectors (autonomous services, local governments and social security) were better than expected. Accordingly, the final figure for the 2005 deficit should be around 5.5% of GDP, lower than official projections (6%).
- Despite this favorable outcome, central government public expenditure rose faster than revenues: 8.2% and 5%, respectively. It is worth mentioning the increase in indirect taxes' revenues by 11%, reflecting the rise in the normal VAT tax rate last July. On the expenditure side, personnel costs rose 4% and current transfers to Public Administration increased 15.1%, reflecting transfers to the National Health Service and to the Social Security Budget.

SPAIN

- **According to the Spanish Stability and Growth Plan for 2005-08, Spain will grow above 3% in the period.** Domestic demand will keep boosting economic growth, while the contribution of foreign demand will remain negative. However, in that period contributions from domestic and foreign demand are expected to become slightly more balanced. Household spending is seen to grow strongly, though at a more moderate pace, as employment creation and immigration flows are expected to slowdown. Still, higher interest rates and higher indebtedness level may refrain consumption. GFCF will continue to expand at a healthy rate, benefiting from favourable financing conditions, - even if ECB is seen to follow a policy of normalization of interest rates, its monetary policy will remain very accommodative during the period. Still, the expected slowdown on the pace of growth of investment will be influenced by an expected slowdown of activity in the construction sector that will be partly compensated by a positive performance of investment on equipment goods. Foreign demand will benefit from the recovery of activity in its main partners, a better outlook for prices behaviour and a more moderate growth on imports.

	2005	2006	2007	2008
Real GDP	3.4%	3.3%	3.2%	3.2%
Private Consumption	4.2%	3.5%	3.3%	3.2%
Public Consumption	4.5%	4.1%	3.6%	3.1%
Investment	7.1%	5.9%	5.2%	5.1%
Exports	1.1%	2.6%	3.3%	3.8%
Imports	7.0%	5.8%	5.5%	5.5%

Source: Spain's Stability Programme 2005-2008.

- **Public accounts are expected to remain in a very comfortable situation over the period**, benefiting from the superavit on social security accounts. In 2007 and 2008, revenues as percentage of GDP will weigh slightly less than in the previous year, reflecting the fiscal reform that will reduce families' fiscal burden starting in 2007. For corporates the period of implementation of new fiscal rules would be between 2007 and 2011.

Budgetary objectives (% of GDP)

	2006	2007	2008
Central Government	0.3%	0.4%	0.4%
State	-0.4%	-0.3%	-0.3%
Social Security	0.7%	0.7%	0.7%
Autonomous Communities	-0.1%	-0.1%	0.0%
Local Governments	0.0%	0.0%	0.0%
Government Total	0.2%	0.3%	0.4%

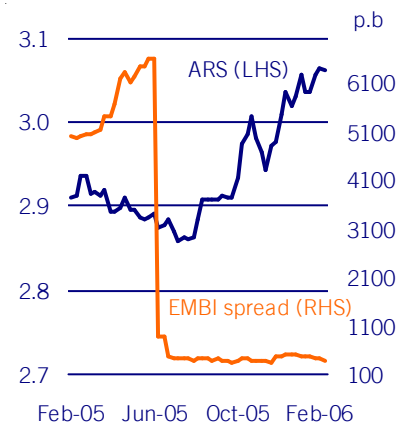
Source: Spain's Stability Programme 2005-2008.

- **Spanish economy grew 0.9% qoq and 3.5% yoy in 4Q05**. On a quarterly basis, the acceleration of growth during the last quarter should reflect a less negative performance from foreign demand. Detailed data are due on February 22nd.
- **Inflation rate accelerated to 4.2% YoY in January**. This behaviour has been mainly due to energy and administered prices, pushing up the index
- **First indicators for 2006 confirm the good momentum of the Spanish economy, with activity in both manufacturing and services sectors expanding at a good pace, and employment indicators continuing boding well for job creation.**

ARGENTINA

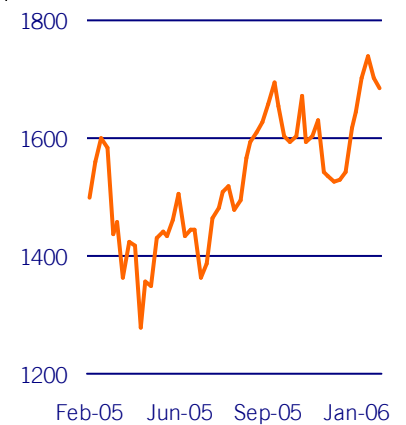
- **Inflation continues to be the main economic theme.** Recently, Economy Minister Felisa Miceli said the government will continue pursuing "price agreements" in order to contain inflation. At the same time, it was also mentioned that the weak peso policy will not change and that the government will maintain a high fiscal surplus. With the maintenance of these measures, the government expects inflation to fall below 1% m/m in February, after being 1.3% m/m in January. However, the important thing will be to see if the agreements are to be permanent, otherwise they might increase the demand-supply imbalances (which are the main reasons behind the inflation increase, by stimulating short-term consumption). At the moment, the Economy Ministry estimates inflation to reach 8.6% in 2006, while the Central Bank has a forecast between 8% and 11%. In 2005, inflation was 12.3%, in line with analysts expectations (according to the median of forecasts in a recent central bank poll).
- At the same time, the **government continues to deny any intention of cooling the economy.** Supporting this idea is the recent credit lines of some USD 1.5bn, launched by the economy ministry to help stimulate investment. Meanwhile, the government's financing strength remains an important protection for the economy and a strong support for asset prices. The government reported that the primary surplus for 2005 reached a new record of ARS 19.8bn (about 3.7% of GDP), higher than the official budget target of 3.4% of GDP. For this year, the **budget includes a projection of a primary surplus of 3% of GDP based on a 4% growth forecast for the economy.** Since the economic growth is expected to be higher than 4%, the primary surplus could also be higher, reinforcing the idea of a comfortable financing position during the next years.
- Currently, attentions are centred in the possibility the economy could be negatively affected by the recent finding of infected cattle with foot-and-mouth disease, as it could affect export receipts. Last year Argentina hit a record of USD 1.4bn of beef exports when it was also declared free of the infection. However, the last episode of foot-and-mouth disease cost the country about USD 400mn in lower export revenues. The only positive effect could come from a likely fall in beef prices in the local market due to oversupply, helping inflation to moderate in the short term.

ARS & EMBI Spread



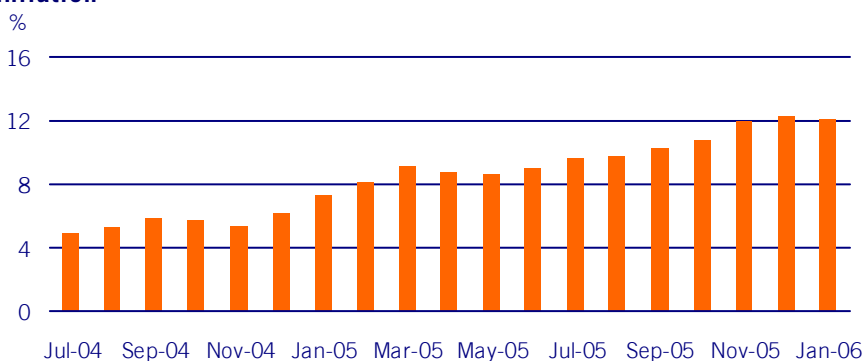
Source: Bloomberg.

MERVAL index



Source: Bloomberg.

Inflation

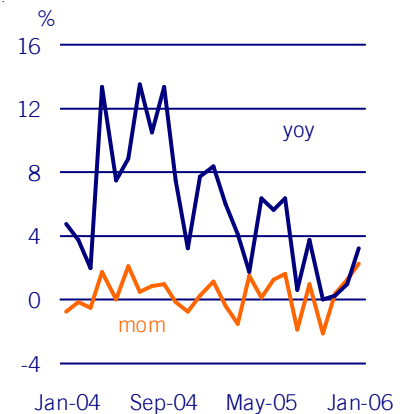


Source: INDEC.

BRAZIL

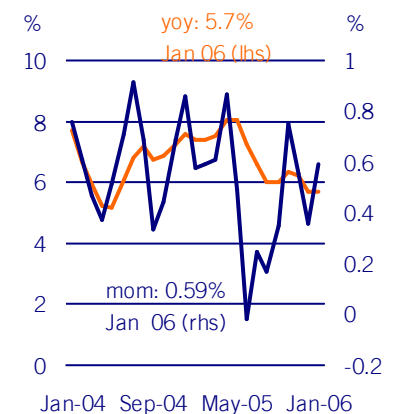
- The Brazilian industrial output expanded by 2.3% m/m in December, below analysts expectations but better than prior month's performance. Even though 2005 was a modest year for Brazil's industrial sector, with output growing 3.1% on the year vs. 8.3% in 2004. But not everything was bad news. Capital goods output, seen as an estimate of business investment, rose 5.8% m/m in December, suggesting companies are betting consumption will continue to increase in the coming months. Moreover, in 2005 industrial slowdown was mainly due to the restrictive monetary policy. Being so, with the actual interest rate cut cycle, it is possible that Brazilian industry will grow at a faster pace, suggesting a possible economic recovery.
- **This seems to be positive news in what concerns the 2006 economic performance.** At the same time, President Lula da Silva and Finance Minister Palocci announced some **measures that intend to stimulate residential construction.** These include federal bank credit to residential construction and tax exemptions, which are additional measures that will probably stimulate domestic demand and growth. Together with the recent announcement of a higher minimum wage; higher fiscal spending; and lower interest rates, it is possible to foresee stronger demand that could prompt up inflation. If so, the Central Bank scope for reducing interest rates could diminish.
- With all this data signalling the upside risk to growth increasing, **the BACEN should continue to cut interest rates** at a steady rate, meaning high probabilities for the cuts to be equal or below 75 bp. Note that in January, the IPCA consumer price index rose 0.59% m/m, above the levels in November and December and slightly higher than expected by the majority of analysts. This data, together with the increase in market expectations regarding 2006 inflation, could make BACEN more cautious regarding monetary policy. Remember that in 2006 the central bank hopes to bring inflation down to 4.5% from 5.69% last year.
- In the near future, **the government is expected to announce a decision regarding a propose to exempt foreign investors from the heavy taxation on investments in local markets.** There are still doubts that the law will be approved in 2006. Main concerns hold on the potential for an additional appreciation of the BRL resulting from stronger portfolio inflows. Still, **BRL is expected to depreciate in the second half of the year** due to lower interest rates; a possible deterioration in the trade balance (higher consumption leads to higher imports and higher currency leads to lower exports); and more uncertainty with the approach of presidential elections.
- Note also that, despite the central bank purchases of USD in the FX market, **international reserves have remained almost unchanged this month.** This could be explained by the recent announcement of National Treasury plans to buy back the government's external debt, having already bought back USD 2.3bn since the beginning of the year. The program aims at buying back something between USD 16bn and USD 20bn in external debt due up to 2010 and Brady bonds, until December 2006. Unlike in 2002, when the Central Bank repurchased external bonds and included them in its international reserves, now it is eliminating the external debt, having already cancelled USD 0.8 bn in January.

Industrial production



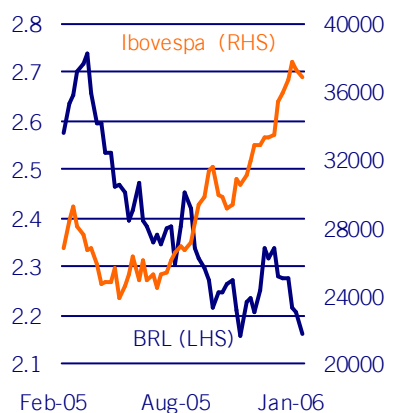
Source: Bloomberg.

IPCA Inflation



Source: Bloomberg.

BRL & Ibovespa



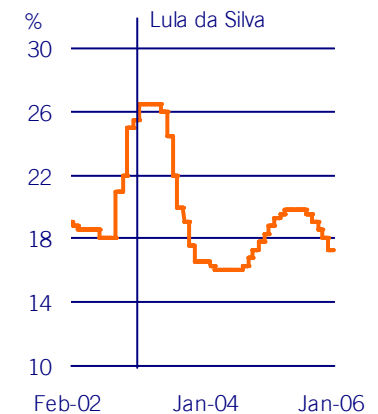
Source: Bloomberg.

- According to the latest polls, **Mr. Lula da Silva seems to be regaining some ground against other potential candidates.** However, Mr. José Serra, the best positioned PSDB potential candidate, still leads the way, winning in the first round.

MEXICO

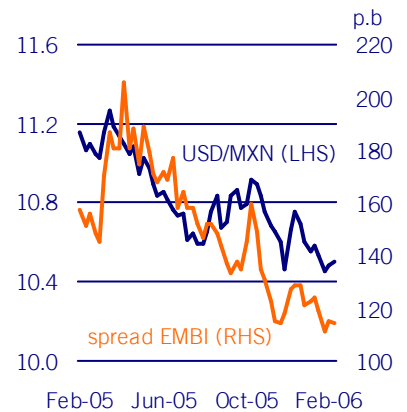
- **The recent polls show that 2006 presidential elections outcome should be the most uncertain in the country's history.** In fact, during 2005, when there were still strong uncertainties regarding the candidates for each party, Mr. López Obrador (AMLO), from the PRD, was practically seen as the winner. However, since January, when the campaign began, the other candidates regained some ground. According to the latest poll, released on January 18th by Mitofsky, AMLO has 39% of voting intentions, followed by Mr. Felipe Calderón, from the PAN, with 31%. Roberto Madrazo, of the PRI, is in third place with 29%. If vote intentions continue like this until the election day, AMLO will become president on the first round. However, the poll released by GEA-ISA showed that AMLO and Calderón would likely be tied in the first place with 35% of voting intentions each. Nonetheless, these results could be still inverted, namely due to the existence of a significant part of the population that has not yet made up its mind.
- As expected, **Mexican tourism is being affected by last year's Wilma storm,** with the amount of total travellers in the southeast area of Mexico falling by 23% y/y in January due to a major reduction in tourism in the Mayan Riviera, the area most affected by that storm. Note that in the 12 months before the summer storms, Mexico received USD 12bn from tourism, with a significant portion being generated in the gulf.
- The government reported that **investment spending rebounded in November, growing 1.8% m/m and 8.3% y/y.** This should be consistent with real GDP growth at 3%, as reported in the recent Banxico inflation report. At the same time, the industrial sector showed signs of recovery in November, with industrial production's index rising by 3% y/y (below expectations), up from 2.4% in October and 1.2% in September. However, November's retail sales increased slightly lower than in October, and Global Economic Activity index was practically unchanged relative to the previous month. All in all, **analysts continue to see high uncertainty regarding the pace of recovery, doubting that GDP will increase 3.5% as expected by officials.**
- **January's headline inflation was 0.59% m/m, slightly above expectations, but core CPI increased just 0.24%.** The core inflation performance continues to support the idea that the **Central Bank will continue to pursue with the interest rate cuts.** We recall that the Central Bank expects overall inflation to remain around 4% during the next months, **but to end 2006 between 3% and 3.5%.** Moreover, it sees core inflation ending the year at about 3%.

Selic rate



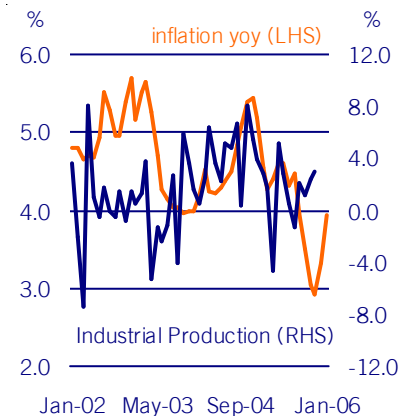
Source: Reuters.

MXN & EMBI spread



Source: Bloomberg.

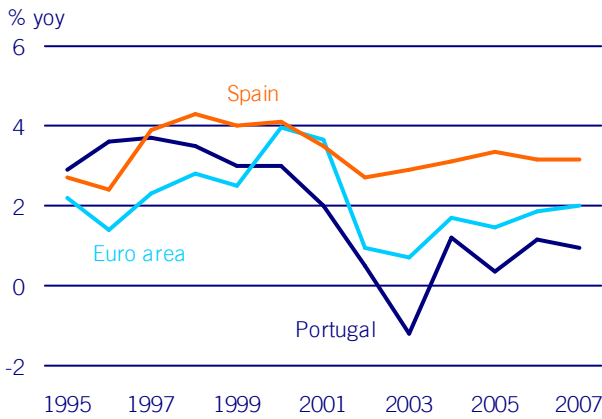
Inflation & Industrial Production



Source: INEGI.

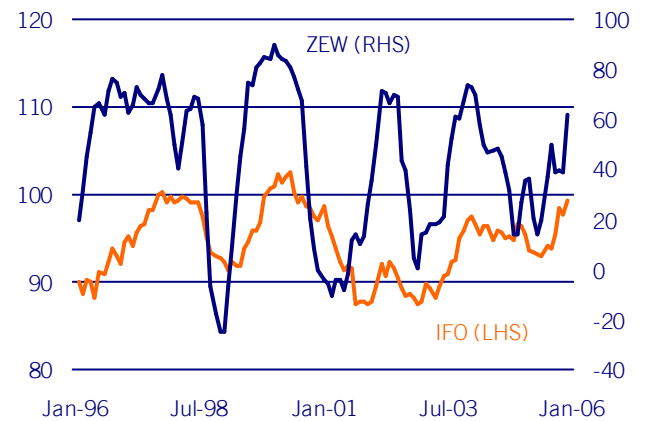
RECENT EVOLUTION: KEY ECONOMIC INDICATORS

Real GDP



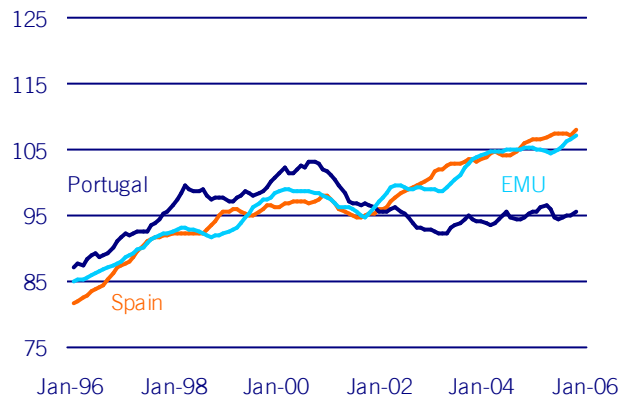
Source: OECD, BPI.

IFO business sentiment



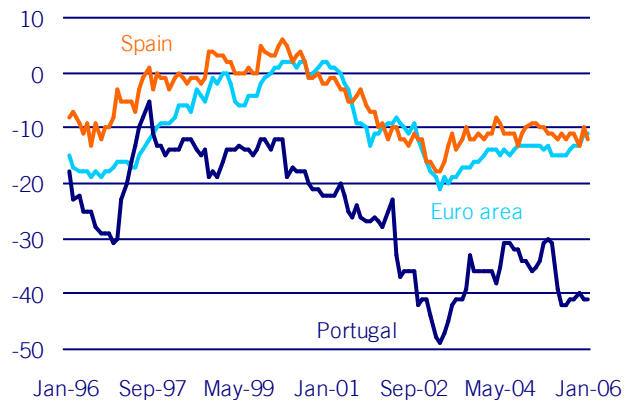
Source: IFO, ZEW.

OECD Composite-leading indicators



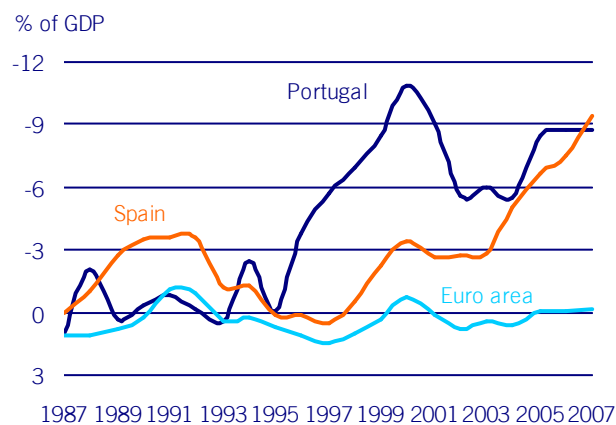
Source: OECD.

Consumer Confidence



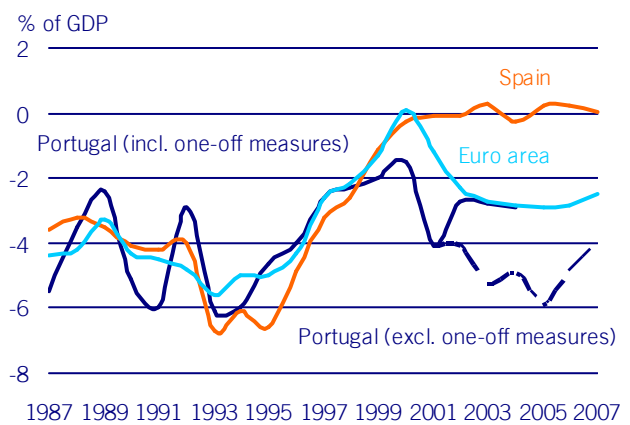
Sources: Eurostat, INE.

Current account balance (% of GDP)



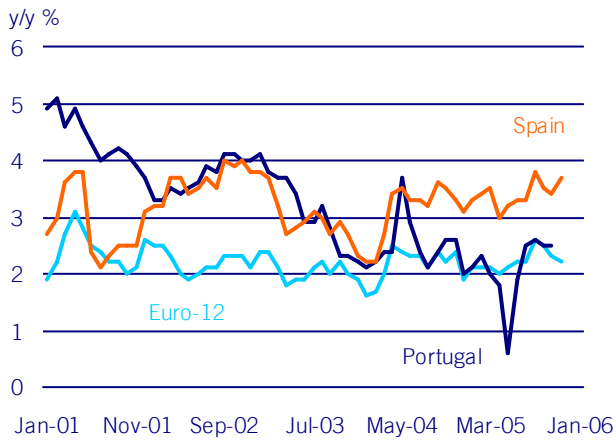
Sources: Eurostat, BPI.

Government balance (% of GDP)



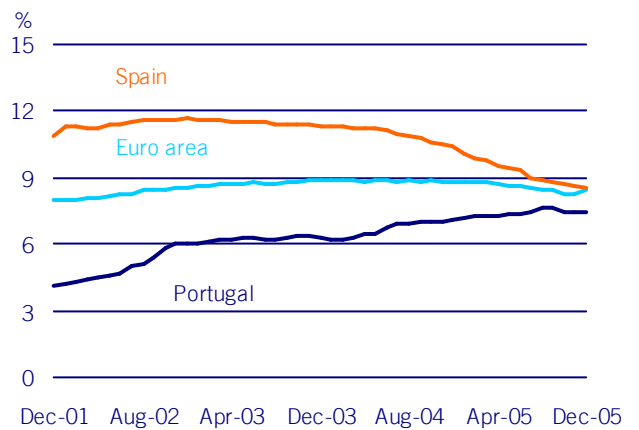
Sources: OECD, BPI.

Inflation



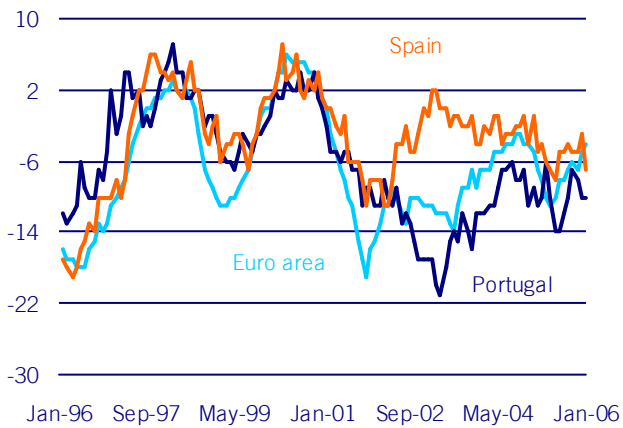
Sources: Eurostat.

Unemployment



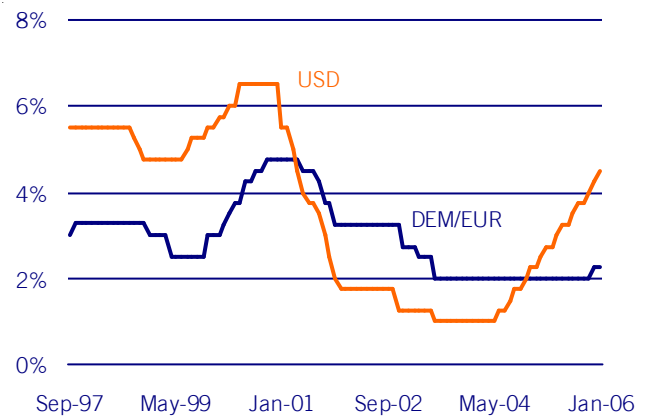
Sources: Eurostat.

Business sentiment



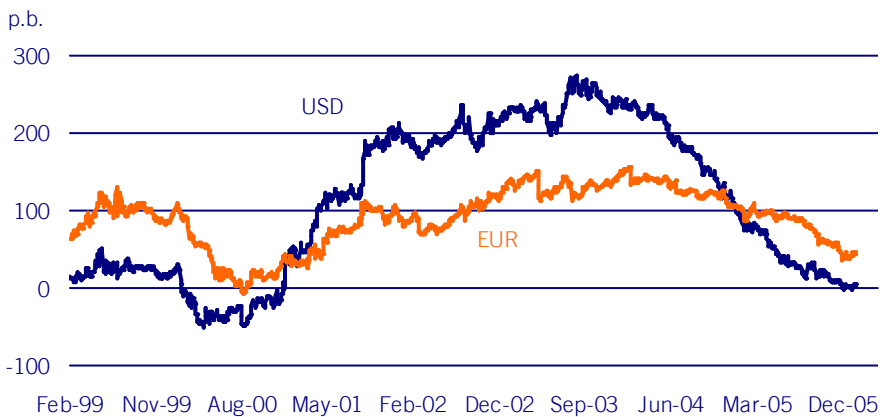
Source: Eurostat, INE.

Key interest rates



Source: Reuters.

Spread of 10 year benchmark to the Bund



Source: INEGI.

FORECASTS

Portugal

%	2001	2002	2003	2004	2005 ^F	2006 ^F	2007 ^F
Growth Components							
Real GDP	2.0	0.5	-1.2	1.2	0.3	1.1	1.0
Private Consumption	1.1	1.2	-0.4	2.5	1.9	1.0	1.1
Public Consumption	3.4	2.3	0.3	2.4	1.0	-0.8	-0.8
Fixed Investment	1.9	-4.8	-9.9	1.5	-2.9	1.0	0.8
Exports	2.1	1.5	4.5	4.6	1.0	2.2	2.8
Imports	1.3	-0.5	-0.7	6.7	1.8	0.8	1.6
Inflation & Labour							
Consumer Prices (year-end average)	4.4	3.7	3.3	2.3	2.3	2.5	2.3
Unemployment Rate	4.1	5.1	6.3	6.7	7.7	7.9	7.5
Financial Variables							
Euro/US\$ (end-period)	0.88	1.00	1.30	1.15	1.22	1.24	1.24
Euro/JPY (end-period)	115.3	122.0	131.3	121.9	137.9	136.4	136.4
Euribor 3M (average)	4.20	3.32	2.33	2.10	2.19	2.86	3.00
10y benchmark (average)	5.18	5.02	4.23	4.07	3.44	3.78	4.00
Budget Balance (% GDP)	-4.1	-2.7	-2.8	-2.9	-5.9	-4.9	-4.0
Budget Balance (excl. one-off measures) (% GDP)	-4.1	-4.1	-5.3	-4.9	-5.9	-4.9	-4.0
Public Debt (% GDP)	55.2	57.8	59.5	61.9	66.2	68.5	68.5
Current Account (% GDP)	-9.0	-5.6	-6.0	-5.5	-8.5	-8.7	-8.7

Source: Eurostat, OECD, EIU, BdP and BPI.

Spain

%	2001	2002	2003	2004	2005 ^F	2006 ^F	2007 ^F
Growth Components							
Real GDP	3.5	2.7	2.9	3.1	3.4	3.2	3.2
Private Consumption	3.2	2.8	2.6	4.3	4.2	3.6	3.4
Public Consumption	3.9	4.5	3.9	6.4	5.0	4.7	4.5
Investment	4.2	3.4	6.2	3.9	6.7	5.6	5.2
Exports	4.0	1.7	3.5	2.7	1.1	3.1	3.5
Imports	4.2	3.8	6.2	8.0	6.7	6.3	5.9
Inflation & Labour							
Consumer Prices (y/y)	2.7	4.0	2.7	3.1	4.2	3.0	2.7
Unemployment Rate	10.5	11.4	12.0	10.8	9.4	8.9	8.3
Financial Variables							
Budget Balance (% GDP)	-0.1	-0.1	0.3	-0.3	0.3	0.3	0.1
Public Debt (% GDP)	56.9	54.0	51.3	48.9	43.7	41.1	39.4
Current Account (% GDP)	-2.6	-2.7	-2.8	-5.0	-6.6	-7.5	-9.5

Source: OECD, IMF, EIU and Gov. of Spain.

KEY MARKET DATA

Currencies vs. Euro

	7/Feb	chg. (1 M)	chg. (3 M)	chg. (YTD)
USD	1.1973	-0.99%	2.00%	14.17%
GBP	0.6859	-0.42%	1.57%	5.44%
JPY	141.24	0.73%	2.59%	13.55%

LatAm Currencies

	7/Feb	chg. (1M)	chg. (3M)	chg. (YTD)
ARS	3.0642	0.25%	2.79%	3.85%
BRL	2.2060	-3.28%	-0.23%	-23.97%
MXN	10.49	-0.66%	-2.45%	-6.56%

Source: Bloomberg and BPI.

Interest Rates

	7/Feb	1 MTD (b.p.)	3 MTD (b.p.)	YTD (b.p.)
Overnight ⁽¹⁾	0.00	0	-208	-232
3M % ⁽¹⁾	2.31	0	0	18
10 year OT bond yield	3.43	0	-21	-88

(1) Euribor.

Sources: Reuters and BPI.

Spreads

	10Y Bond Yield	OT Spread (b.p.)	3M rate (%)	Spread 3M (b.p.)
Spain	3.34	9	2.31	-203
Germany	3.33	10	2.31	-203
US	4.53	-110	4.33	-

Sources: Reuters and BPI.

Economic Forecasts

	Inflation			Budget deficit /GDP			Public Debt/GDP			Current Account/GDP			Unemployment			GDP growth rate		
	2005	2006	2007	2005	2006	2007	2005	2006	2007	2005	2006	2007	2005	2006	2007	2005	2006	2007
USA	3.4	2.8	2.2	-3.3	-3.6	-3.4	60.9	61.7	ND	-6.4	-6.5	-6.5	5.1	4.9	5.0	3.6	3.4	3.0
Japan	-0.3	0.2	0.8	-6.5	-5.9	-5.5	171.9	175.1	ND	3.4	3.5	3.9	4.4	4.1	3.8	2.4	2.3	2.3
EU	2.1	2.0	1.9	-2.7	-2.7	-2.6	64.1	64.2	64.3	-0.2	-0.4	-0.3	8.3	8.1	7.8	1.6	2.1	2.2
EU 12	2.2	2.0	1.9	-2.9	-2.8	-2.5	72.0	72.2	71.8	-0.1	-0.1	-0.1	8.7	8.4	8.1	1.3	1.9	1.7
Germany	1.9	1.5	1.6	-3.8	-3.5	-2.7	68.4	70.2	71.4	4.0	4.0	3.9	9.4	9.2	8.9	1.0	1.7	1.0
France	1.9	1.7	1.4	-3.2	-3.4	-3.3	66.1	67.1	68.0	-1.1	-1.0	-0.6	9.8	9.5	9.0	1.5	1.9	1.9
Italy	2.2	2.0	1.8	-4.3	-4.4	-4.2	109.0	109.8	107.9	-1.5	-1.4	-1.5	7.8	7.6	7.4	0.2	1.4	1.0
Spain	3.4	3.2	2.7	0.3	0.2	-0.2	45.0	42.6	40.7	-6.9	-7.1	-8.1	9.1	8.4	8.4	3.4	3.1	2.8
Netherlands	1.6	0.8	1.4	-1.9	-1.8	-1.4	54.8	54.6	53.8	5.4	5.6	5.8	5.4	5.1	4.6	0.7	2.0	2.0
Belgium	2.6	2.2	1.5	-0.2	-0.6	-0.6	94.9	91.1	88.1	2.7	2.6	2.2	8.1	8.1	8.1	1.4	2.0	1.9
Austria	2.2	1.8	1.4	-1.9	-1.9	-1.5	64.3	64.2	63.6	0.1	0.1	0.3	5.3	5.2	5.4	1.8	1.9	1.9
Finland	0.9	1.3	1.2	1.8	1.7	1.6	42.8	41.5	40.6	3.3	3.5	3.4	8.3	7.8	7.3	1.6	3.2	2.5
Greece	3.5	3.2	2.5	-4.1	-3.6	-3.6	107.9	106.8	106.0	-6.3	-6.0	-6.5	10.5	10.3	10.0	3.5	3.1	2.9
Ireland	2.3	2.6	2.4	-0.5	-0.5	-0.6	29.0	28.7	28.2	-1.7	-1.8	-1.5	4.3	4.2	4.4	4.6	4.7	4.6
United Kingdom	2.3	1.9	1.9	-3.2	-3.1	-2.8	42.1	43.5	45.1	-2.0	-2.0	-2.2	4.7	4.9	5.1	1.7	2.1	2.4
Sweden	0.6	1.6	1.8	0.9	0.7	0.9	51.5	50.8	47.8	6.7	6.2	6.0	5.9	5.1	4.9	2.6	3.2	2.7
Denmark	1.7	1.8	1.9	3.0	2.5	2.5	38.1	35.5	31.5	3.2	3.1	3.3	5.0	4.8	4.2	3.0	2.6	2.2
Luxembourg	3.0	3.3	2.2	-2.1	-2.1	-2.1	6.8	7.0	7.3	6.4	7.1	6.1	4.9	5.3	5.7	3.6	3.8	4.5
Switzerland	1.2	1.3	1.5	-1.5	-1.1	-0.7	ND	ND	ND	12.1	12.1	12.1	3.9	3.8	3.4	1.6	2.1	1.6
Portugal	2.2	2.5	2.0	-6.1	-4.9	-4.3	65.5	68.0	72.1	-8.5	-8.5	-8.7	7.4	7.5	7.5	0.6	1.0	1.3

Sources: average forecast of OECD, EU, BdP, Other.

Note: The averaging process may imply incongruent forecasts.

Brazil - Economic Forecasts

	2005	2006 ^F	2007 ^F
GDP (real growth)	2.8%	3.5%	3.5%
Inflation (IPCA)	5.8%	4.6%	4.2%
Unemployment rate	9.8%	9.8%	9.8%
Public Debt (%GDP)	51.7%	50.6%	49.5%
Budget Balance (as % of GDP)	4.6%	4.4%	4.5%
Current Account (as %of GDP)	1.8%	0.8%	0.2%
External debt (as % of GDP)	57.0%	58.7%	60.9%
Selic rate (end of period)	18.1%	15.6%	14.8%
USD/BRL (end-of-period)	2.31	2.54	2.48

Source: BPI.

Argentina - Economic Forecasts

	2005	2006 ^F	2007 ^F
GDP (real growth)	8.3%	5.7%	4.1%
Inflation	11.3%	12.8%	12.4%
Unemployment rate	11.2%	10.2%	9.5%
Public Debt (as % of GDP)	79.3%	67.4%	64.7%
Budget Balance (as % of GDP)	3.9%	3.9%	3.7%
Current Account (as %of GDP)	2.0%	0.7%	0.4%
External debt (as % of GDP)	25.1%	25.0%	25.5%
O/N Baibor rate (end of period)	5.0%	7.3%	14.2%
USD/ARS (end-of-period)	2.98	2.99	3.11

Source: BPI.

Mexico - Economic Forecasts

	2005	2006 ^F	2007 ^F
GDP (real growth)	3.0%	3.4%	3.2%
Inflation	3.5%	3.6%	3.5%
Unemployment rate	3.6%	3.6%	3.7%
Public Debt (as % of GDP)	36.5%	35.9%	35.7%
Budget Balance (as % of GDP)	2.1%	2.2%	2.0%
Current Account (as %of GDP)	-0.9%	-1.2%	-1.7%
External debt (as % of GDP)	67.9%	69.7%	73.4%
28-days Cetes rate (end of period)	8.7%	7.8%	6.8%
USD/MXN (end-of-period)	10.78	11.44	11.74

Source: BPI.

Chile - Economic Forecasts

	2005	2006 ^F	2007 ^F
GDP (real growth)	6.0%	5.5%	5.2%
Inflation	3.6%	3.3%	3.1%
Unemployment rate	8.2%	7.8%	7.8%
Public Debt (as % of GDP)	18.6%	17.3%	26.2%
Budget Balance (as % of GDP)	3.0%	1.5%	1.0%
Current Account (as %of GDP)	0.7%	-0.5%	-0.6%
External debt (as % of GDP)	16.4%	16.4%	16.4%
Money market rate (end of period)	4.4%	5.2%	n.a.
USD/CLP (end-of-period)	532	550	554

Source: BPI.

EQUITY

Research

Ana Negrals de Matos, CFA	(351) 22 607 3179
Lurdes Pinho	(351) 22 607 3363
Tiago Bossa Dionísio	(351) 21 310 4475
Banking	
Enrique Soldevila Manrique	(34) 91 781 4602
Laura Alonso	(34) 91 781 4605
Energy	
Ricardo Pimentel Seara, CFA	(351) 22 607 3134
Flora Trindade	(351) 22 607 4377
Telecoms	
Tiago Veiga Anjos, CFA	
Media	(351) 22 607 3275
Bruno Almeida da Silva	(351) 22 607 4375
Ana Horno	(34) 91 781 4603
Construction, Motorways & Cement	
Flora Trindade	(351) 22 607 4377
Retail Apparel	
Eduardo Coelho	(351) 21 310 1263
Catarina Vieira	(351) 22 607 3143
Gonçalo Moreira	(351) 22 607 3141
Joaquin Garcia-Romanillos	(34) 91 781 4606
Small Caps	
Maria do Céu Gonçalves (Publishing)	
Carla Gomes Alves (Publishing)	

Institutional Sales

Ana Spratley Ferreira, CFA	(351) 22 607 3196
Dirk Schnitker, CFA	(34) 91 432 1794
Eric Hongisto	(34) 91 432 1790
Flemming Barton	(34) 91 432 1791
Javier Angulo	(34) 91 432 1793
Leonor de los Toyos	(34) 91 432 1790
Luís Sousa Pinto	(351) 22 607 3256
Pedro Prista Guerra, CFA	(351) 22 607 3218
Sérgio Godinho	(351) 22 607 3139

Sales/Trading

	(351) 22 607 3279
Rafael Joanes	
Francisco Chaves	
Jason Page	
Marta Brito e Cunha	
Pedro Costa	
Pedro Moreira	
Ramon Blanco	

Economics and Fixed Income Research

Cristina Casalinho	Chief Economist	(351) 21 310 1186
--------------------	-----------------	-------------------

"This document is only for private circulation and only partial reproduction is allowed, subject to mentioning the source. This research is based on information obtained from sources which we believe to be reliable, but is not guaranteed as to accuracy or completeness. This report does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. Investors should seek financial advice regarding the appropriateness of investing in any securities or investment strategies discussed or recommended in this report and should understand that the statements regarding future prospects may not be realized. This material is based on information obtained from sources which we believe to be reliable, but is not guaranteed as to accuracy or completeness. At any time BPI or any affiliated companies (or employees) may have a position, subject to change, in these securities. Unless otherwise stated all views (including estimates or forecasts) herein contained are solely expression of BPI's Equity Research department and subject to change without notice. Opinions expressed are our current opinions as of the date appearing on this material only. Investors should also note that income from such securities, if any, may fluctuate and that each security's price or value may rise or fall. Accordingly, investors may receive back less than initially invested. Past performance is not a guarantee for future performance. BPI accepts no liability of any type for any indirect or direct loss arising from the use of this report."

"Within the last 2 years, BPI acted as co-lead or co-manager in secondary offerings by Gescartão. BPI was also in this period lead manager of rights issues by BPI, Sonaecom, Impresa and Jerónimo Martins."

" BPI may provide corporate finance and other services to the companies referred to in this report."

INVESTMENT RATINGS AND RISK CLASSIFICATION (TOTAL RETURN IN 12-18 MONTHS):

	Low Risk	Medium Risk	High Risk
Buy	> 15%	>20%	>25%
Accumulate	>10% and < 15%	>10% and < 20%	>15% and < 25%
Hold	>0% and < 10%	>0% and < 10%	>0% and < 15%
Reduce	>-15% and < 0%	>-20% and < 0%	>-25% and < 0%
Sell	< -15%	< -20%	< -25%

These investment ratings are not strict and should be taken as a general rule.

INVESTMENT RATINGS STATISTICS

As of 31st January BPI Equity Research's investment ratings were distributed as follows:

	%
Buy / Speculative Buy	15%
Accumulate	37%
Hold	28%
Reduce	13%
Sell	4%
Under Revision	3%
Accept Bid	1%
Total	100%

BANCO PORTUGUÊS DE INVESTIMENTO, S.A.

Oporto Office

Rua Tenente Valadim, 284
4100-476 Porto
Phone: (351) 22 607 3100
Telefax: (351) 22 600 2052

Madrid Office

Pº de la Castellana, 40-bis-3ª
28046 Madrid
Phone: (34) 91 781 4603
Telefax: (34) 91 781 4607

Lisbon Office

Largo Jean Monnet, 1
1269-067 Lisboa
Phone: (351) 21 310 1000
Telefax: (351) 21 353 5650