

Global Weekly Flash

Madrid, 17 May 2013
Economic Analysis

Financial Scenarios

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Weak economic data weigh on yields

- **Sovereign debt markets inched down early in the week but rallied at the end of the week after economic data disappointed**

- Greek and Portuguese yields declined sharply after the positive assessments from the Eurogroup for both countries, and after Fitch upgraded the Greek sovereign rating to B- from CCC. In the week, the Greek 10Y yield fell by 142bps, while the Portuguese decreased by 21 and the Spanish one inched down by 7bps. Furthermore, Turkish sovereign market also surged after Moody's upgraded its' sovereign rating to investment grade (Baa3/stable). Meanwhile, equity indexes ended the week climbing by 1% on average, supported in expectation of low interest rates. FX markets registered strong movements in financial markets this week, amid activism showed by central banks to curtail currency appreciation. On the other hand, Fed Bank of San Francisco President, John Williams, joined to the Philadelphia Fed president, Charles Plosser, suggesting that the FED may reduce its assets purchase programme in the next few months due to improving economic growth and labor market. The dollar registered gains against major currencies, as reflected by 1.2% increase in the Dollar index (DXY), which track the average exchange rate between the USD and major currencies. The Turkish Lira fell by 1.9% against the USD after Turkey's Monetary Policy Committee (MPC) decided to cut the benchmark one-week repo rate by 50bps to 4.5%, among other measures to provided financial stability as "capital inflows remain strong and credit growth hovers above the reference rate". Under this environment, the MPC considers that "the proper policy would be to keep interest rates low while increasing foreign currency reserves via macroprudential measures".

- **Peripheral debt markets continued attracting investors' demand, but foreign investors' has lost some steam.**

- The Spanish Treasury launched a new 10Y syndicated bond. The total bid amounted to EUR22bn, while the Treasury allotted EUR7bn. Foreign investors took the 48% of the issue, below their share in January's 10Y syndicated-bond (60%). Bank treasuries and asset managers showed strong support for the transaction, representing 34% and 32% respectively, suggesting real money came into the Spanish debt market. The final price was mid-swap + 278bps, equivalent yield of 4.452%, around 10bps above markets yield. Other peripherals also attracted foreign investors' demand. Last week, Portugal launched its first 10Y syndicated bond since it was rescued. Portugal's Treasury sold EUR3bn at a final price of mid-swap + 400bps, and foreign investors took the 86% of the issuance, below the 90% of the January's issuance. Italy sold EUR6bn in a 30Y syndicated bond, with foreign investors bought more than the 50% of the issuance, below the 62% they took in the previous syndicated. Meanwhile, real money investors took more than the 92%.

- **The European leaders may set a light version of the Single Resolution Mechanism (SRM) at the June's Council meeting**
 - Last week, the German finance minister Wolfgang Schäuble warned that a fully fledged the SRM would need a change in the EU Treaty but recognized the need to have some sort SRM since the SSM starts being operational, in July 2014. According to this, in the transition, the restructuring and resolution of SSM ailing banks would be undertaken by an EU-coordinated network of national resolution authorities under the dictates of harmonized EU rules (the new Recovery and Resolution Directive, to be endorsed by the Council in June and by the European Parliament in October). If needed, this "transitory SRM" would be allowed to rely on the ESM funds for a direct recapitalization of troubled banks, which operational rules are expected to be agreed by the Eurogroup in June.
 - On the other hand, developments in rescued countries seem to be on track. This week the Eurogroup gave the green light to the disbursement of Greek EUR 7.5bn loan tranche, which will take place in two sub-tranches. The first of them will amount EUR 4.2bn and it will be approved by the Eurogroup and the EFSF in the following days. The disbursement of the second sub-tranche will be made in June 2013, linked to the implementation of the MoU. The Eurogroup also welcome the agreement between Portugal and the Troika on necessary measures to close the Portuguese fiscal gap. Lastly, the ESM disbursed the first tranche of the EUR10bn loan aid to Cyprus; EUR2bn had been already paid and EUR1bn will be paid before June 30 2013.

- **Eurozone recession continues, while Japan growth surges on a sign that 'Abenomics' is working to improve growth prospects**
 - The eurozone GDP fell more than expected in 1Q13. It is important to highlight that the drop in activity was widespread across countries. The eurozone GDP fell by -0.2% q/q in 1Q13, more than expected. The flash estimate does not provide any details about the decomposition of growth, but national figures (both in Germany and France) suggest that net exports support could be weaker than anticipated, while domestic demand continued to weigh on growth. This negative surprise poses a downward bias to our forecast of GDP growth for 2013 as a whole (-0.1%), as the negative carry-over effect means that activity could end falling at a similar pace than in 2012 (-0.5%). Nonetheless, we continue to see a gradual and mild recovery in the second half of the year. Meanwhile, industrial production grew more than expected in March, and the euro area ZEW survey has risen in May after hitting bottom in April. In addition, euro area external trade improved in March.
 - Japan's first quarter GDP beat expectations spurred by stimulus measures. It grew by 3.5% saar (consensus: 2.7%). Growth was boosted by private spending and exports, with the latter benefiting from the yen's depreciation. Looking ahead, we expect the economy to maintain improving growth trends, in line with our full-year GDP growth projection of 1.7%.
 - Regarding China, industrial production, retail sales, and investment data for April were broadly in line with expectations and with a modest pickup in growth momentum. Industrial production grew 9.3% YoY improving slightly from March, while nominal retail sales growth rose 12.8% YoY. While downside risks remain, taken together with trade, credit data, and inflation released last week, the full set of April economic indicators reaffirm our 8.0% GDP growth outlook for 2013, based on continued supportive policies, as described in our latest China/Asia Outlook. Meanwhile, China FDI inflows slow in April, below expectations. They moderated to 0.4% YoY, down from the improvement in February and March.

- In the US, industrial production declined heavily as the utilities and manufacturing components yet again played havoc with the headline series. Total output in April decreased 0.5% following a modest 0.4% gain in March. Overall, industrial production declined at a stronger pace than expected and with the sentiment pointing toward a continuing slowdown in the manufacturing sector, it is unlikely we will see much of a reversal in the coming months, barring any fluctuations in utilities. This supports our current baseline expectations for slight moderation in 2Q13 before growth accelerates again throughout the second half of the year. In contrast, retail sales increased in April more than expected. The housing sector showed mixed signs this week as housing starts decreased more than forecast in April, although building permits surged in April to 5-year high. Meanwhile, jobless claims jumped last week at the fastest pace in six months, and May Philadelphia Fed survey contracted against expectations.
- Industrial production in Mexico came out well-below expectations, it fell 0.3% in March, which adds to evidence of a soft patch in 1Q13. Meanwhile in Peru, GDP growth in March surprised to the downside, it rose 3.0% YoY, but we expect the slowdown to be temporary and growth to increase in April. In Brazil, retail sales declined slightly in March, but less than expected (-0.1% MoM); meanwhile, economic activity expanded 0.7% in March, suggesting that GDP grew 1% in 1Q13. In Chile, consumer confidence increased in May, while the central bank left rates unchanged, as expected.

Next week: In the US, FED's president, Ben Bernanke, will testify before the Joint Economic Committee on the economic outlook. In Europe, on May 22, a European Council will take place. The EU leaders will discuss tax policy and they will take stock of work on the deepening of the Economic and Monetary Union; but it is not expected to be adopted conclusions on this topic. Besides, BCE's member, Victor Constancio, and the Vice-president of the European Commission, Olli Rehn, will address on financial regulation. Regarding activity data, in the US, the Chicago FED national activity index for April will be published along with housing data. In Europe, the eurozone manufacturing and services PMI indices for May will be released. Importantly, in Germany, the IFO activity index for May and the Gfk consumer confidence for June will be closely watched, in order to determine the shape of the German economy.

Weekly Indicators

Week May, 13 - May, 17

CC	Indicator	Period	Cons. E	Prior		Obs. *
United States	Retail sales	Apr	-0.30%	-0.40%	↑	0.10%
	Jobless claims(th)	10-May	330	323	↓	360
	Industrial Production	Apr	-0.2%	0.4%	↓	-0.5%
	Housing starts (th)	Apr	973	1,036	↓	853.00
	Building permits(th)	Apr	942	907	↑	1,017
	Phil Fed Survey	May	2.40	1.30	↓	-5.20
	Consumer sentiment, U. Michigan	May P	78.00	76.40	↑	83.7
Euro zone	GDP s.a. (QoQ)	1Q A	-0.1%	-0.6%	↓	-0.2%
	CPI (MoM)	Apr	-0.1%	1.2%	→	-0.1%
	Trade Balance sa(EUR bn)	Mar	--	12.00		18.7
	Trade Balance (EUR bn)	Mar	--	10.40		22.9
	Construction Output SA MoM	Mar	--	-0.8%		-1.7%
	Ind. Prod. sa (MoM)	Mar	0.3%	0.4%	↑	1%
Germany	Consumer Price Index (MoM)	Apr F	-0.5%	-0.5%	→	-0.5%
	CPI - EU Harmonised (MoM)	Apr F	-0.5%	-0.5%	→	-0.5%
	Zew Survey (Current Situation)	May	10.10	9.20	↓	8.90
	ZEW Survey (Econ. Sentiment)	May	40.0	36.3	↓	36.4
	GDP s.a. (QOQ)	1Q P	0.5%	-0.6%	→	0.5%
Spain	CPI (MoM)	Apr	0.4%	0.4%	→	0.4%
	Trade balance (Million Eur)	Mar	--	-1,184		634.9
China	Retail sales	Apr	12.8%	12.6%	→	12.8%
	Industrial Production (YoY)	Apr	9.4%	8.9%	↓	9.3%
	Actual FDI (YoY)	Apr	6.2%	5.7%	↓	0.4%
Japan	GDP (QoQ)	1Q13	0.7%	0.3%	↑	0.9%
	Industrial Production (MoM)	Mar F	--	0.2%	↑	0.9%
Mexico	GDP (YoY)	1Q	1.10%	3.2%	↓	0.5%
	Global Economic Indicator IGAE	Mar	-0.70%	0.39%	↓	-1.8%
Colombia	Consumer Confidence	Apr	14.5	--	↑	23.7
Brazil	Economic Activity Indx MoM SA	Mar	0.65%	-0.52%	↑	0.72%
	Retail Sales (MoM)	Mar	-0.5%	-0.4%	↑	-0.1%
	FGV Inflation IGP-10 (MoM)	May	-0.05%	0.18%	↓	-0.09%
Peru	Unemployment rate	Apr	6.10%	6.4%	↑	5.6%
	Economic Activity Indx YoY NSA	Mar	4.55%	5.0%	↓	3.0%

* e. Forecast/ * Magenta- Below consensus forecast. Green-Above consensus forecast. Yellow- In line consensus forecast.
 Source: Bloomberg and BBVA Research

Calendar: Indicators

Eurozone: EC consumer confidence (May, May 23rd)

Forecast: -21.8	Consensus: -21.8	Previous: -22.3
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Consumer confidence is expected to improve slightly in May, continuing the upward trend observed in the last five months. However, the indicator still remains more than a standard deviation lower than its long-term average, suggesting that households' spending will continue to remain subdued in coming months, in line with our scenario that envisages a broadly flat private consumption during 2013. Notwithstand, we see some downside risks in our forecast as labour market and tough credit conditions will continue to take its toll on consumption. Across countries, we expect consumers' confidence to remain relatively stable in core economies, as the sharp drop in demand from the periphery ends up affecting negatively private-sector decisions in the short run.

Eurozone: Flash PMI Composite (May, May 23rd)

Forecast: 47.3	Consensus: 47.2	Previous: 46.9
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We expect PMI composite to have increased slightly again in May, although remaining clearly below 50 points, and thus suggesting that the upturn in the eurozone is likely to be delayed throughout 2H13. We expect both components in manufacturing and services to marginally increase, as external demand could have continued to support the industrial sector, while resilient domestic factors in core economies should have backed services. Across countries, German figures are likely to prove that the economic recovery is on track, although at a moderate pace, while in France we expect PMI figures to reveal further signs of weakness.

US: New Home Sales (April, May23rd)

Forecast: 428K	Consensus: 425K	Previous: 417K
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Continuing its upward trend, we expect new home sales to rise again in April as more and more homes come online from the latest construction gains. Despite the large increase in housing starts in March, single family home construction remains fairly weak. The tight credit market and dwindling land availability is suppressing momentum in the construction sector for the time being. However, over the past 4-5 months there has been an increase in the number of single family homes that have been completed, according to the U.S. Census Bureau. Up 7.4% since the beginning of the year, new home completion has picked up pace which is encouraging for supply given how restrictive it has been. The accommodative weather will also pair well with the spring buying season and should help to bring buyers into the market. With rates remaining low and employment continuing to stabilize, the coming months should show an uptick in growth in the housing market.

US: Durable Goods Orders, Ex Transportation (April, May24th)

Forecast: -0.9% m/m, -0.2% m/m	Consensus: 1.8% m/m, 0.5% m/m	Previous: -5.7% m/m, -1.4% m/m
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Durable goods orders are expected to shrink again in April as the manufacturing sector shows signs of slowing. While the transportation component, particularly aircraft orders, often encourages a more volatile headline figure, the core data show a somewhat clearer trend. Durable goods orders excluding transportation have declined throughout the past two months, reflecting a similar slowdown as seen with other manufacturing indicators for the start of 2Q13. The ISM index has fallen for the past two months as well, nearing the 50 mark as it hovers at 50.7, which is significantly lower than its yearly high in February of 54.2. Coupled with the recent decline in industrial production for April, the evidence is pointing toward another month of falling new orders and possibly a decline in shipments as well given the lack of demand across sectors. The Empire State and the Philadelphia Fed surveys also declined in April as demand slowed and new orders were far from positive. The outlook from both surveys for the coming six months was less optimistic than in prior months, ultimately suggesting that durable goods demand may continue to be weak.

Taiwan Export Orders (April, May 20th)

Forecast: -0.9% y/y	Consensus: -1.3% y/y	Previous: -6.6% y/y
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Taiwan's export orders are a leading indicator of near-term export prospects in the region. Export orders declined more than expected, by -6.6% y/y, in March, followed by disappointing April export outturns in Korea and Taiwan. (While China's exports have surprised to the upside, they have been questioned because of possible over-invoicing to disguise capital inflows.) We expect Taiwan's export orders in April to contract at a slower pace, partially due to favorable base effects. Orders from China are likely to improve modestly given encouraging processing imports recently. Demand from ASEAN countries should continue to be a bright spot, while Japan's orders will remain sluggish. Taiwan's export-dependent economy unexpectedly lost momentum in the first quarter, but is expected to recover on a mild pace amid stabilized external environment in the remainder of this year.

Markets Data

			Close	Weekly change	Monthly change	Annual change
Interest rates (changes in bps)	US	3-month Libor rate	0.27	0	0	-19
		2-yr yield	0.23	0	1	-6
		10-yr yield	1.91	1	22	19
	EMU	3-month Euribor rate	0.20	0	-1	-48
		2-yr yield	-0.03	-8	-4	-8
		10-yr yield	1.31	-7	8	-12
Exchange rates (changes in %)	Europe	Dollar-Euro	1.282	-1.3	-1.6	0.3
		Pound-Euro	0.84	-0.3	-1.4	4.4
		Swiss Franc-Euro	1.25	0.4	2.7	3.9
	America	Argentina (peso-dollar)	5.23	0.1	1.4	17.4
		Brazil (real-dollar)	2.04	0.7	1.7	0.6
		Colombia (peso-dollar)	1841	0.4	-0.4	1.0
		Chile (peso-dollar)	480	1.3	1.0	-5.2
		Mexico (peso-dollar)	12.32	1.9	0.9	-10.8
		Peru (Nuevo sol-dollar)	2.64	1.3	1.7	-1.3
	Asia	Japan (Yen-Dollar)	103.04	1.4	5.0	30.4
		Korea (KRW-Dollar)	1117.10	1.0	-0.1	-4.7
		Australia (AUD-Dollar)	0.973	-2.9	-5.5	-1.1
Comm. (chg %)	Brent oil (\$/b)	104.4	0.5	6.9	-2.5	
	Gold (\$/ounce)	1369.8	-5.4	-0.5	-14.0	
	Base metals	524.4	-0.5	-0.7	0.5	
Stock markets (changes in %)	Euro	Ibex 35	8581	0.4	10.0	30.7
		EuroStoxx 50	2820	1.3	10.5	31.5
	America	USA (S&P 500)	1659	1.6	6.9	28.1
		Argentina (Merval)	3699	-0.4	8.0	73.3
		Brazil (Bovespa)	55408	0.5	4.8	1.6
		Colombia (IGBC)	13299	0.8	0.0	-7.6
		Chile (IGPA)	20933	-1.2	0.3	1.8
		Mexico (CPI)	41915	0.4	-1.6	13.7
		Peru (General Lima)	16438	-7.7	-8.3	-19.8
	Venezuela (IBC)	759330	8.7	18.3	217.3	
Asia	Nikkei225	15138	3.6	13.1	75.8	
	HSI	23083	-1.0	7.0	21.8	
Credit (changes in bps)	Ind.	Itraxx Main	94	1	-19	-89
		Itraxx Xover	389	7	-65	-364
	Sovereign risk	CDS Germany	34	0	0	-66
		CDS Portugal	331	-6	-70	-890
		CDS Spain	228	3	-33	-327
		CDS USA	30	-2	-4	---
		CDS Emerging	245	11	11	-69
		CDS Argentina	2789	-124	579	1604
		CDS Brazil	127	15	9	-29
		CDS Colombia	83	8	-6	-62
		CDS Chile	69	4	6	-45
		CDS Mexico	83	8	-5	-63
CDS Peru	93	7	5	-64		

Source: Bloomberg and Datastream

Weekly Publications

Country	Date	Description
Global	05/14/2013	➤ Macroeconomic Forecasting and the Sustainability of Public Finances An Independent Fiscal Responsibility Authority For Spain
	05/12/2013	➤ La ley de Lawson y la crítica de Walters En las últimas semanas, a raíz del fallecimiento de Margaret Thatcher, hemos asistido a numerosos análisis y publicaciones sobre la llamada 'revolución conservadora'.
EMU	05/16/2013	➤ Europe Flash: Flash GDP for 1Q13 The drop in activity was widespread across countries
Spain	05/16/2013	➤ Flash España- "AA.PP.: ejecución presupuestaria a marzo de 2013" El déficit público acumulado a marzo de 2013 se habría situado en torno al 1,4% del PIB, manteniendo el mismo nivel alcanzado en el 1T12.
	05/14/2013	➤ Flash España: IPC de abril El crecimiento de los precios al consumo se desaceleró en abril debido a la presión a la baja en el componente energético y los servicios
	05/13/2013	➤ Flash España: Compraventa de viviendas a marzo de 2013 Tal y como se esperaba, las ventas registradas en el mes de marzo (22.086) han sido muy inferiores a las de los tres meses anteriores
US	05/16/2013	➤ U.S. Economic Watch. CBO Releases Updated Budget Projections Significant Improvements in Deficit Outlook for 2013 and Beyond
	05/16/2013	➤ U.S. Inflation Flash. Headline Inflation Falls as Energy Prices Slump in April Headline inflation declined for the second straight, down 0.4%. Gasoline prices declined by 8.1%, its fastest downward move since late 2008
	05/15/2013	➤ U.S. Flash. Industrial Production Falls as Utilities and Autos Decline Total output in April decreased 0.5% following a modest 0.3% gain in March. Headline manufacturing declined 0.4% as both durable and nondurable goods slowed
	05/13/2013	➤ U.S. Flash. Retail Sales Rise Despite the Fall in Gasoline Prices Retail Sales rose by 0.1% in April despite the call for a negative figure. Excluding autos and gas, the sales figure was much more positive, up 0.6%
	05/13/2013	➤ U.S. Weekly Flash. Consumer Credit Gains Slow Significantly in March as Personal Spending Takes a Hit Total outstanding consumer credit continued to increase in March but at a much slower pace compared to previous months. Up only \$8.0bn, this marks the slowest monthly increase since last July (Spanish version)
Latam	05/17/2013	➤ Latam Daily Flash: Economic activity increased in Brazil; CB kept interest rates in Chile while consumer confidence raised
	05/16/2013	➤ Latam Daily Flash: Output grew below expectations in Peru; retail sales declined slightly in Brazil
	05/15/2013	➤ Latam Daily Flash: Peru - Mining investment continued its strong growth in 1Q13
	05/15/2013	➤ Situación Latinoamérica. Segundo trimestre 2013 América Latina aumentará su crecimiento del 2,9% en 2012 al 3,5% en 2013 y 3,7% en 2014, en línea con su potencial. La región deberá promover reformas para consolidar el crecimiento en el largo plazo
	05/14/2013	➤ Latam Daily Flash: Peru expands public spending at the beginning of 2Q13
	05/14/2013	➤ Latam: se mantiene el dinamismo
	05/13/2013	➤ Latam Daily Flash: IP surprises downwards in Mexico; business confidence moderates in Peru

Uruguay

- 05/16/2013 > **Situación Uruguay Primer Semestre 2013**
La ralentización del consumo interno, la demora en el inicio de los grandes proyectos de inversión y el magro aporte del sector externo determinarán para 2013 un crecimiento de sólo 3,7%

Peru

- 05/15/2013 > **PIB sorprende a la baja en marzo**
El producto avanzó 3,0% interanual en marzo, por debajo de lo esperado (BBVA: 4,2%; Consenso: 4,5%).

Mexico

- 05/13/2013 > **Mexico Real Estate Flash. Activity in the construction sector declined in the first quarter**
Construction fell in March; although there were fewer working days, there are other causes. The leading indicators continue to show a negative trend

EAGLEs

- 05/15/2013 > **Economic Watch: EAGLEs increasing demand turns energy security into a South-South issue (Chinese version)**
- 05/15/2013 **Observatorio Económico: La creciente demanda de los EAGLEs hace que la seguridad energética se concentre en las relaciones Sur-Sur**
El rápido crecimiento económico alimenta el consumo de energía en los países emergentes; la oferta de energía todavía se concentra en el mundo emergente

Asia

- 05/16/2013 > **Asia Flash | 16 May 2013: Japan's Q1 GDP beats expectations; China FDI inflows slow; India introduces inflation indexed bonds; Australia postpones budget**
Japan's Q1 GDP beat expectations, in the latest sign that Abenomics is working to improve growth prospects.
- 05/14/2013 > **India Flash: April WPI inflation drops below 5%, supporting the case for another rate cut in June**
Tackling food inflation through adequate supply side response is crucial to keep inflation low; First quarter industrial growth supports tepid pick up in India's 1Q13 GDP growth.
- 05/13/2013 > **China Flash: April activity indicators in line with expected modest pickup**
Industrial Production improved slightly; Retail sales and investment point to a stabilizing domestic demand. Credit remains strong on growth-supportive policies

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