

# Global Weekly Flash

Madrid, 5 July 2013  
Economic Analysis

Financial Scenarios

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## Central banks in Europe adopt a dovish tone, distancing themselves from the Fed

- **Both the BCE and the BoE surprise markets by moving towards a policy of forward guidance. They strike a more dovish tone, distancing themselves from the Fed's perceived hawkishness**
  - The ECB stated that rates will remain “at present or lower levels for an extended period”, dropping its “never pre-committed” quote. Meanwhile, in its statement, the BoE said “the implied rise in the expected future path of banks rate was not warranted by the recent developments in the domestic economy,” also suggesting the adoption of some form of forward guidance in the next committee.
- **Portugal's political turmoil rattles Portuguese financial markets, but barely impacts Spanish or Italian markets**
  - **Political tensions rise in Portugal.** The trigger was the resignation of several ministers on Tuesday and Wednesday: a wake-up call to the still fragile European outlook. Since then, tension have abated: the wave of resignations, including that of the leader of Portugal's rightist CDS-PP coalition party, has stopped and conversations within the governing coalition have been renewed. The political crisis may still result in early elections, which may delay the Troika's loan disbursements and thus increase financial strains. EUR 5.8bn in Portuguese bonds mature in September, although ,according to our estimates, Portugal's current cash buffer is large enough to honor this redemption (nonetheless, next loan tranches could potentially suffer some delay).
- **Greece works to reassure the Troika that it can deliver on the conditions attached to its rescue program. Greece faces EUR 2bn in bond redemption in August**
  - **Financial tensions rise in both Portugal and Greece, but not in other peripheral economies.** The 2Y Portuguese yield has jumped 167 bps, while 10Y yield has risen by 51bps in Portugal and by 35bps in Greece. Contagion to other peripheral countries has been minimal. 2Y yields have fallen by 17bps in Spain and 23bps in Italy (i.e., more than the 8 fall of the 10Y Bund), while the 10Y in Italy and Spain ended the week flat. Moreover, on Thursday, the Spanish Treasury sold EUR 4bn in 3Y and 5Y bonds, reaching the upper limit of its initial issuance target (EUR 3-4bn). Borrowing costs were only 10-17bps higher than during its previous auction (as a comparison, France's borrowing costs increased by 26-28pbs during the same period). Flows towards the German Bund have accelerated since yesterday's ECB meeting, widening the 10Y spread between Germany and the US (from 57 bps to 96bps).

- **The dovish tone used this week by the BCE and BoE and the strong US payroll weigh in forex markets, strengthening the dollar**
  - All major currencies have lost ground against the dollar: the British pound (-2% against the US dollar), the Swiss franc (-1.7%), the Japanese yen (-1.8%), and the euro (-1.4%). Lastly, oil prices have strengthened as a consequence of the latest political developments in Egypt.
- **Economic activity gathers pace in developed countries but loses ground in emerging markets**
  - **Economic activity continues to improve in the US.** June's payroll and ADP employment reports have surprised to the upside, while initial jobless claims have continued to fall. Another welcomed news has been the rise in May's factory orders. Nonetheless, uncertainty remains: June's reading of the ISM non-manufacturing index fell below expectation and May's trade deficit was larger than expected.
  - **Euro area data are mixed, but still suggest improvement.** June's PMI services index has been revised down (yet remaining above May's levels). On the other hand, May's retail sales have surprised to the upside.
  - **China's Premier seeks to restore confidence in the 7.5% growth target.** Premier Li Keqiang has emphasized that the government can meet this year's macroeconomic targets, including a 7.5% GDP growth for 2013. In line with the above, the central government has published financial sector guidelines for public sector agencies in order to bolster growth and facilitate economic restructuring. The idea is to revert signs of weakening economic activity (as indicated this week by June's NBS PMI services index and HSBC Manufacturing PMI). On a positive note, China's interbank cash squeeze has been receding, with shibor rates continuing to decline.
  - **Data continues to suggest a slowdown in Latin America's activity.** In Mexico, consumer confidence and the manufacturing index dropped more than expected in June, adding a downward bias to our GDP growth estimate for 2Q13. In Brazil, industrial production also declined more than expected in May, reinforcing our view that GDP growth in 2Q13 will not be significantly higher than the 0.6% QoQ registered in 1Q13. In Chile, May's manufacturing production has surprised to the downside, while its monetary policy report included a downward revision to growth and - to a lesser extent - in inflation, together with a rate cut towards December. In our opinion, the actual deceleration of the Chilean economy does not have to be fueled by interest rate cuts, at least not in the very short term.

On the other hand, in Peru, inflation kept inching upwards on strong demand and the recent depreciation of the exchange rate. It is now close to the ceiling of the central bank's target band and we expect it to remain close to 3% in coming months. Lastly, in Colombia the central bank has left interest rates unchanged, and has moderated the concerns about the increase in market volatility, reducing the chances of a possible early termination of the current USD purchase program. We reiterate our view that the cycle of rate cuts has come to an end, in line with a slight recovery in local activity in 2Q13e.

**Next week:** The Eurogroup meets next Monday and will be followed by the ECOFIN summit. Finance ministers will talk about the Greek and Spanish programs, they will also continue to discuss plans for a banking union. Portugal will hold its annual parliamentary debates about the state of the nation. In the US, few economic indicator will be released (including July's U. Michigan confidence index and minutes from 18-19 June FOMC meeting). In Asia, the BoJ will hold its monthly monetary policy meeting and China will publish CPI, new loans and its trade balance for June.

## Weekly Indicators

Week July, 1 - July, 5

CC	Indicator	Period	Cons. E	Prior		Obs. *
United States	ISM Manufacturing Survey	Jun	50.50	49.00	↑	50.90
	Factory Orders	May	2%	1%	↑	2.1%
	ADP Employment Report (Th)	Jun	158.00	135.00	↑	188.00
	International Trade Balance (US\$ bn)	May	-40.10	-40.30	↓	-45.00
	ISM Non-Manufacturing	Jun	54.10	53.7	↓	52.20
	Nonfarm Payrolls (th)	Jun	165.00	175.0	↑	195.00
	Unemployment Rate	Jun	7.5%	7.6%	→	7.6%
Euro zone	PMI Manufacturing	Jun F	48.70	48.70	↑	48.80
	Euro-Zone Unemployment Rate	May	12.3%	12.2%	↓	12.1%
	Euro-Zone CPI - Core (YoY)	Jun A	1.2%	1.2%	→	1.2%
	Euro-Zone PPI (MoM)	May	-0.2%	-0.6%	↓	-0.3%
	PMI Composite	Jun F	48.90	47.70	↓	48.70
	Euro-Zone Retail Sales (MoM)	May	0.3%	-0.5%	↑	1%
Germany	Factory Orders MoM (sa)	May	1.2%	-2.3%	↓	-1.3%
	PMI Manufacturing	Jun F	48.70	48.70	↓	48.60
	PMI Services	Jun F	51.30	51.30	↓	50.40
Spain	Unemployment MoM net (th)	Jun	-100.00	-98.30	↓	-127.20
	Industrial Output wda (YoY)	May	-2.0%	-1.8%	↑	-1.3%
China	Manufacturing PMI	Jun	50.10	50.80	→	50.10
	HSBC Manufacturing PMI	Jun	49.20	48.30	↓	48.20
Japan	Tankan Manufacturers Index	2Q13	-8.00	3.00	↑	4.00
	Tankan Large All Indust Capex	2Q13	-2.0%	2.9%	↑	5.5%
Mexico	IMEF Manufacturing Index NSA	Jun	50.00	49.00	→	47.50
	Leading Indicators (MoM)	May	--	0.02		0.02
Brazil	PMI Manufacturing	Jun	--	50.4		50.4
	Trade Balance (Mln) - Monthly	Jun	2,050	760	↑	2,394
Chile	Economic Activity Indx YoY NSA	May	3.9%	4.4%	→	3.9%
Peru	CPI MoM	Jun	0.22%	0.19%	↑	0.3%

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

## Calendar: Indicators

### Eurozone: Industrial production (May, July 12<sup>th</sup>)

<b>Forecast: -0.1% m/m</b>	<b>Consensus: -0.2% m/m</b>	<b>Previous: 0.4% m/m</b>
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In April, the upside risks to our forecast that we anticipated were fulfilled and industrial production rose by 0.4% m/m instead of falling marginally as originally expected. After this positive surprise, we expect a brief dip in May (BBVA: -0.1% m/m, Consensus: -0.2% m/m) after the significant rebound in the last three months. Notwithstanding the weakness of the data expected in May, our forecast would imply an increase by one percentage point in the period April to May over the 1Q13. Industry would be already recovering in the Eurozone, consolidating our forecast that the economy would have grown marginally in the second quarter of 2013, with a mild acceleration expected over the following quarters. The driving forces of the upturn will be a progressive improvement in exports and a marginal recovery of domestic demand in the second half of the year.

### Germany: Exports (May, July 8<sup>th</sup>)

<b>Forecast: 0.0% m/m</b>	<b>Consensus: 0.1 % m/m</b>	<b>Previous: 1.7% m/m</b>
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German exports are expected to stand with no changes in May compared to April, so that the average growth of April and May will be above what was observed in the first quarter, despite the fact that weak market conditions of key export destinations pose a downward risk to our forecast. A downfall in intra-Eurozone exports would have been offset by a slightly stronger demand from other markets like China or the USA. Looking forward, we expect exports to contract slightly again in June, as PMIs for June signaled a reduction in new orders from Asia and the rest of Europe. We expect exports to have a positive contribution in 2013 as a whole, though they will continue to slow down along the year.

### US: Consumer Credit (May, July 8<sup>th</sup>)

<b>Forecast: \$12.33bn</b>	<b>Consensus: \$12.50bn</b>	<b>Previous: \$11.06bn</b>
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With consumer credit rising at an accelerated pace, it is evident that non-revolving credit will continue to be the majority driver of the figure. Although there is concern over the sustainability of the current level of student debt, fear will do little to hinder the current pace of non-revolving student loans which have been a significant portion of consumer credit growth. In addition, the growing demand for vehicles is likely to help bolster the non-revolving figure as consumers look to loans for help replacing or acquiring newer vehicles. With regard to the revolving component, there is not much to expect in terms of consumer credit growing at an accelerated clip based on revolving credit. Consumer spending has been relatively resilient, with retail sales up 0.6% in May, but not enough to expect that consumers were much more willing to take on credit-card related debt to fund their habits.

### US: Consumer Sentiment (July, July 12<sup>th</sup>)

<b>Forecast: 84.8</b>	<b>Consensus: 85.0</b>	<b>Previous: 84.1</b>
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The University of Michigan's consumer sentiment survey is expected to rise as recent data have shown some further momentum in how consumers view the outlook for the U.S. economy. With gas prices remaining relatively stable throughout the last week of June and into July, the consumer has fared relatively well in terms of purchasing power, and with equities mostly recovered after a brief Fed-related drop, their financial situation has remained steady. The latest Fed speak has sparked some concern about market ability to weather the increase in interest rates and the tapering of Fed purchases but in terms of the average consumer, the effect will be less drastic in the short term, save any fluctuation in particular equities. In hindsight, the consumer has weathered the payroll tax relatively well and continues to be the driver of GDP growth, and we expect this to bolster confidence in the economy as we enter into the summer months and spending/travel increase.

### China: Exports for June (July 10<sup>th</sup>)

<b>Forecast: 5.0% y/y</b>	<b>Consensus: 4.0% y/y</b>	<b>Previous: 1.0% y/y</b>
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After growing strongly during the first quarter of the year, export figures have weakened in the past two months, especially after the authorities clamped down on over-invoicing, that was had been used by some traders to disguise capital inflows, inflating export figures to Hong Kong in particular. Weakening exports have been one of the factors behind the recent economic slowdown. We expect exports in June to remain subdued but to show a slight rebound in year-on-year terms due to favourable base effects. Going forward we expect some improvement in export trends during the year as external demand recovers, in line with our full-year export growth forecast of 8-10% in 2013. The coming 1-2 weeks will feature a number of important data releases that will be closely watched to gauge growth momentum (especially after the recent interbank liquidity squeeze) including inflation (July 9), credit aggregates (July 10-15), and Q2 GDP and monthly activity indicators for June (July 15).

## Markets Data

			Close	Weekly change	Monthly change	Annual change
<b>Interest rates</b> (changes in bps)	<b>US</b>	3-month Libor rate	0.27	0	0	-19
		2-yr yield	0.39	4	11	13
		10-yr yield	2.71	22	62	116
	<b>EMU</b>	3-month Euribor rate	0.22	0	2	-33
		2-yr yield	0.11	-8	1	12
		10-yr yield	1.72	-1	21	39
<b>Exchange rates</b> (changes in %)	<b>Europe</b>	Dollar-Euro	1.282	-1.5	-2.1	4.3
		Pound-Euro	0.86	0.5	1.2	8.4
		Swiss Franc-Euro	1.23	0.4	0.1	2.8
	<b>America</b>	Argentina (peso-dollar)	5.40	0.3	2.1	19.2
		Brazil (real-dollar)	2.26	1.3	6.2	11.4
		Colombia (peso-dollar)	1928	0.3	1.5	8.0
		Chile (peso-dollar)	508	-0.1	1.0	1.9
		Mexico (peso-dollar)	13.06	1.0	1.6	-2.5
		Peru (Nuevo sol-dollar)	2.79	0.4	2.7	5.6
		<b>Asia</b>	Japan (Yen-Dollar)	101.01	1.9	2.0
	Korea (KRW-Dollar)		1142.50	0.0	2.4	0.4
	Australia (AUD-Dollar)		0.907	-0.8	-5.0	-11.2
	<b>Comm.</b> (chg %)	Brent oil (\$/b)	107.2	4.9	4.0	9.1
Gold (\$/ounce)		1214.5	-1.6	-13.5	-23.3	
Base metals		522.4	0.7	-1.1	3.5	
<b>Stock markets</b> (changes in %)	<b>Euro</b>	Ibex 35	7868	1.4	-5.1	16.8
		EuroStoxx 50	2596	-0.3	-4.2	16.1
	<b>America</b>	USA (S&P 500)	1625	1.2	1.0	20.0
		Argentina (Merval)	3061	2.8	-10.6	28.4
		Brazil (Bovespa)	44578	-6.1	-15.6	-19.5
		Colombia (IGBC)	12620	-1.6	-5.7	-8.0
		Chile (IGPA)	19071	-4.0	-7.7	-9.7
		Mexico (CPI)	40443	-0.4	0.5	1.5
		Peru (General Lima)	15273	-1.8	-4.3	-25.9
	Venezuela (IBC)	1229487	6.9	50.2	394.9	
<b>Asia</b>	Nikkei225	14310	4.6	10.0	58.6	
	HSI	20855	0.2	-5.5	5.3	
<b>Credit</b> (changes in bps)	<b>Ind.</b>	Itraxx Main	114	-5	6	-58
		Itraxx Xover	452	-23	7	-232
	<b>Sovereign risk</b>	CDS Germany	33	0	4	-66
		CDS Portugal	478	78	156	-372
		CDS Spain	288	6	55	-291
		CDS USA	28	-1	0	---
		CDS Emerging	332	13	33	53
		CDS Argentina	3239	230	-58	2048
		CDS Brazil	204	19	51	51
		CDS Colombia	152	10	32	14
		CDS Chile	104	6	19	-11
		CDS Mexico	142	11	28	12
		CDS Peru	157	12	37	1

Source: Bloomberg and Datastream

## Weekly Publications

Country	Date	Description
Global	07/02/2013	<p>➤ <b>Global Flash: GDP growth estimate in 2Q13 declines. BBVA-GAIN indicates a slowdown at around 0.6% (q/q)</b> Global Activity Index (BBVA-GAIN) posts weaker pace of global GDP expansion in June.</p>
EMU	07/01/2013	<p>➤ <b>Europe Flash: EU Council: a low profile summit</b> EU Council summit confirmed on June 28 measures of progress towards banking union and deployed measures to foster youth employment and funding to SME's (Spanish version)</p>
	07/01/2013	<p>➤ <b>Europe Flash: Eurozone inflation up due to energy prices, but expected to moderate again</b> After the expected 1.6% y/y this month, inflation should hover around 1.3% y/y for the rest of the year (Spanish version)</p>
Spain	07/02/2013	<p>➤ <b>Flash España: Cuentas no financieras de los sectores institucionales en 1T13</b> Por primera vez desde mediados de los 90, la economía española presenta capacidad de financiación frente al resto del mundo (1% del PIB en acumulado cuatro trimestres).</p>
	07/02/2013	<p>➤ <b>Flash España: Registros laborales en junio: el final del ajuste se acerca</b> El deterioro del mercado de trabajo continuó ralentizándose en junio</p>
	07/01/2013	<p>➤ <b>Flash España: Matriculaciones de turismos de junio: la mayor demanda de particulares no logró compensar la caída del canal profesional</b> El crecimiento de la demanda de particulares fue insuficiente para compensar el retroceso del canal profesional</p>
	06/30/2013	<p>➤ <b>Crédito: cambio de tendencia</b> Aunque puede parecer que va contracorriente, la caída agregada del crédito es un fenómeno necesario dentro del proceso de ajuste de la economía española.</p>
	06/30/2013	<p>➤ <b>Las exportaciones en España: una cuestión de empresas</b> Desde un punto de vista macroeconómico, se puede concluir que las exportaciones españolas se han desenvuelto bien en el nuevo marco internacional de comercio</p>
	US	07/03/2013
07/03/2013		<p>➤ <b>U.S. Economic Watch. Monthly US Outlook: July</b> Pending Fed Action Dominates the Outlook for 2H13</p>
07/02/2013		<p>➤ <b>U.S. Economic Watch. State Activity Indexes May 2013</b> In May, state activity increased in 39 states, decreased in 1 state and remained unchanged in 10 states. (Spanish version)</p>
07/01/2013		<p>➤ <b>U.S. Flash. Manufacturing Activity Rebounds in Both New Orders and Production</b> The ISM Manufacturing Index rebounded after a weaker May to 50.9 in June. New orders and production both returned to positive growth, at 51.9 53.4 respectively</p>
07/01/2013		<p>➤ <b>U.S. Weekly Flash. Real GDP Growth Revised Down on Weaker Consumption and Investment</b> Real GDP growth for 1Q13 unexpectedly declined from 2.4% in the preliminary report to 1.8% in the final estimate as consumer spending and non-residential investment emerged weaker than anticipated (Spanish version)</p>

**Latam**

- 07/04/2013 > **Latam Daily Flash: Consumer confidence, another drag on 2Q13 growth in Mexico**  
Consumer confidence in Mexico dropped more than expected in June and is likely to drag consumption (and growth) in 2Q13.
- 07/03/2013 > **Latam Daily Flash: IP drop in Brazil reinforces our view that growth will not accelerate in 2Q**  
Industrial production in Brazil declined more than expected in May.
- 07/02/2013 > **Latam Daily Flash: Weak manufacturing in Mexico and rising inflation in Peru**  
The manufacturing index in Mexico continued to fall in June, confirming the slowdown in activity and adding a downward bias to our GDP growth estimate for 2Q13.
- 07/01/2013 > **Latam Daily Flash: BanRep kept its policy rate unchanged; activity surprised downwards in Chile**

**Chile**

- 07/01/2013 > **IPoM e IEF: Recortes en la TPM hacia fines de año y preocupación por endeudamiento hogares**  
BC recorta proyección de crecimiento, bastante más que la de inflación. Además, la trayectoria para la TPM considera recortes hacia 4,5% a dic. mientras que el DCC se proyecta llegando a 4,7% del PIB.

**Peru**

- 07/01/2013 > **Flash Perú. Inflación interanual mantuvo tendencia al alza en junio**  
Los precios al consumidor aumentaron 0,3% m/m en junio (BBVA: 0,3%; Consenso: 0,2%). El resultado del mes reflejó principalmente el alza de algunos alimentos y de las tarifas eléctricas.

**Mexico**

- 07/01/2013 > **Mexico Migration Flash. Remittances to Mexico recorded 11 consecutive-months with declines**  
In May remittances to Mexico fell 13.2% y-o-y, close to estimates by BBVA (-10.7%) but far from consensus (-4.7%)  
(Spanish version)

**Asia**

- 07/03/2013 > **Asia Flash | 03 Jul 2013: Australia hints at more rate cuts; China seeks to restore confidence in 7.5% growth target; India steps up efforts to boost growth**  
RBA head hints at more rate cuts, sending the AUD lower; China's Premier seeks to restore confidence in 7.5% growth target; India's government steps up efforts to boost growth and revive sentiment
- 07/02/2013 > **Asia Flash | 02 Jul 2013: RBA holds rates; China PMI shows further slowdown; Signs of further easing in China's interbank market; Regional PMI weakens as inflation remains**  
Signs of a further easing in China's interbank cash squeeze are helping to revive the battered equity market, with the Shanghai Composite rising for a second straight day, by 0.6%.

Publications on July 5, 2013 to 10:00, Madrid time

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