

Global Weekly Flash

Madrid, 8 February 2013
Economic Analysis

Financial Scenarios

Cristina Varela Donoso
cvarela@bbva.com
+34 91 537 7825

María Martínez Álvarez
maria.martinez.alvarez@bbva.com
+34 91 537 66 83

Alejandro Neut
robertoalejandro.neut@bbva.com

Ignacio Santiago Llorente
i.santiago.llorente@bbva.com
+34 91 537 76 80

Indicators collaboration:

Europe
Agustín García
agustin.garcia@bbva.com
+34 537 79 36

US
Alejandro Vargas
alejandro.vargas@bbvacompass.com
+1 713 831 7348

Asia
Fielding Chen
fielding.chen@bbva.com.hk
+852 2582 3297

The power of Central Banks' wording

Political uncertainty has weighed on investors' sentiment toward peripheral debt markets, partially reverting last month's growing optimism. Spanish and Italian 10Y yields increased by 24bps and 25bps, respectively. The change in sentiment halted net outflows from the German 10Y bond and yields decreased by 8-10 bps across the German curve. This week's risk-off mood, together with Thursday's ECB statement, dragged down the Euro to 1.337\$ on February 8th (-1.7% change in the week).

- **The ECB kept rates unchanged at 0.75%, as expected, while the euro's recent appreciation raised concerns, but no action. Draghi said that early LTRO's repayment is a consequence of improving conditions in financial markets.**
 - The decision to maintain interest rates was unanimous but Mr. Draghi acknowledged that "there were hints and discussions about how to improve financial conditions". Mr. Draghi emphasized that the monetary stance continues to be accommodative: medium-term inflation risks remain broadly balanced and risks for the economic outlook continue to be on the downside.
 - On the exchange rate, the recent euro appreciation is, for the time being, taken as a sign of confidence in line with fundamentals; however, the ECB signalled that inflation risks could be reassessed if the appreciatory trend continues.
 - On liquidity, as banks have started repaying LTRO's, the ECB "will closely monitor conditions in the money market and their potential impact on the stance of monetary policy." However, it does not seem to be a source of concern for the ECB as they "estimate repayment for the second LTRO, we are left quite persuaded that the excess liquidity will be well over €200 billion confirming the monetary policy stance as being accommodative".
- **Bank of England's Governor-elect is open for a debate on inflation targeting regime**
 - The Bank of England maintains both its rate at 0.5% and its Asset Purchase Programme at £375 billion. Mark Carney, BoE governor-elect, suggested that he is open for a debate on (flexible) inflation targeting, but added that he is not yet convinced that it is a risk worth taking.
- **BoJ's President Masaaki Shirakawa offered to resign three weeks before the end of his mandate in April**
 - The announcement triggered a short-lived rise on equities and depreciation of the yen.
- **According to the latest polls in Italy, the gap between the center-left coalition (Bersani) and the center-right coalition (Berlusconi) has narrowed**
 - Polls suggest that both Berlusconi's and Grillo's political parties have gained momentum. As we mentioned last week, risks of a hung parliament are non-negligible.

- **Despite political noise, the Spanish Treasury topped again its issuance target (EUR3.5-4.5bn)**
 - However, borrowing costs increased by 35 bps from the previous auction (but still lower than those in the secondary market before the auction). Spain sold EUR 1.94bn in a 2Y bond (2.82% yield), EUR 2.06bn in a 5Y bond (3.77% yield) and EUR 0.59bn in a 16Y bond (5.79% yield). Demand was robust, being the total bid to cover ratio 2.17x.
- **Ireland announced the liquidation and debt restructuring of IBRC, easing the government's short-term funding needs and thus facilitating the country's return to debt markets. According to Fitch Ratings, the agreement is positive for the sovereign as the deal eases fiscal pressure and improves transparency**
 - Ireland passed emergency legislation to liquidate IBRC after news on debt renegotiation with the ECB were leaked. IBRC is the merger of Irish Nationwide Building Society and the nationalized Anglo Irish Bank (the latter was Ireland's main private bank and at the heart of the Irish crisis). Public injections to IBRC were mostly channeled through short-term promissory notes (EUR 25bn), with interest payments amounting to €3.1bn per annum. Large interest payments forced the government to issue a long-term bond last year, leading to discussions on replacing promissory notes for an ESM loan (which turns out to be difficult, as ESM funds cannot be used for legacy assets because other countries would ask for similar deals). On Thursday, it was announced that promissory notes will be replaced for a long-term sovereign loan that can be used as ECB collateral (promissory notes cannot). This exchange eases Ireland's short-term funding needs. Today, the Troika announced the result of the 9th review of the Irish adjustment programme, concluding that Ireland remains on track to fulfill the programme target.
- **On the macro side, Euro-area PMI indices endorse the view that the economy started its recovery, but activity remains subdued**
 - In the euro area, the January PMI composite rose more than expected but still signals contraction. Both manufacturing and services PMI were revised upward from the previous flash estimate.
 - In the US, while ISM non-manufacturing pointed to a partial deceleration, important subcategories signal resilience. Both business activity and new orders remain strong and continue to expand, while employment and export order show rekindled strength and should propel the sector as the economy continues to grow.

In China's non-manufacturing PMI experienced its 4th straight increase in January, suggesting that China's service sector is stabilizing as the economy continues to recover. Export and credit data released today is also bolstering confidence in the durability of the growth pickup, although caution is in order in interpreting the data due to distortions from the timing of the Chinese New Year, which moved from January to February 10 this year.

Next week: Markets will be closed for the full week in China and Taiwan, and for part of the week in Japan, due to the Chinese New Year. On February 12 there is a regular ECOFIN meeting, and on February 14-15 the G20 Finance Ministers and Central Bank Governors' Meeting. The Spanish Treasury will issue 6M and 12M T-bills. Euro area financial ministers will hold a meeting on February 11. On February 12, Mario Draghi will attend the Spanish Congress. On the macro side, Italy, France, Germany and the euro area will release 4Q12 GDP figures.

Week February, 4 - February, 8

| CC | Indicator | Period | Cons. E | Prior | Obs. * |
|---------------|------------------------------------|--------|---------|--------|--------------|
| United States | ISM Non-manufacturing | Jan | 55.0 | 55.7 | 55.2 |
| | Factory orders | Dec | 2.3% | -0.3% | 1.8% |
| | Jobless claims (Th) | Feb-02 | 360 | 371 | 366 |
| | Non-farm productivity | 4Q12 | -1.4% | 3.2% | -2.0% |
| | Trade balance (\$bn) | Dec | -46 | -48,7 | -38,5 |
| | Wholesale Inventories (MoM) | Dec | 0.4% | 0.6% | -0.1% |
| Euro zone | Euro-Zone PPI (MoM) | Dec | -0.2% | -0.2% | 1.0% |
| | Euro-Zone PPI (YoY) | Dec | 2.2% | 2.1% | 2.1% |
| | Euro-Zone Retail Sales (MoM) | Dec | -0.4% | 0.1% | -0.8% |
| | Euro-Zone Retail Sales (YoY) | Dec | -1.3% | -3% | -3.4% |
| | PMI Services | Jan F | 48.3 | 48.3 | 48.6 |
| | PMI Composite | Jan F | 48.2 | 48.2 | 48.6 |
| Germany | Factory Orders (MoM) (sa) | Dec | 0.50% | -1.8% | 0.8% |
| | Factory Orders (YoY) (nsa) | Dec | -1.2% | -1.0% | -1.8% |
| | Trade Balance (€bn) | Dec | | 17 | 12 |
| | Industrial Production (MoM) (sa) | Dec | 0.1% | -0.2% | 0.3% |
| | Industrial Prod. (YoY) (nsa wda) | Dec | -0.5% | -3.1% | -1.1% |
| Spain | Registered unemployment (Th) | Jan | 150 | - 59 | 132 |
| China | Non-manufacturing PMI | Jan | | 56.10 | 56.2 |
| | Exports YoY | Jan | 17.5% | 14.10% | 25% |
| | Trade Balance (\$bn) | Jan | 24 | 31,6 | 29,1 |
| Mexico | IMEF Manufacturing Index | Jan | 53.2 | 52.8 | 52.1 |
| Brazil | PMI Services | Jan | | 53.5 | 54.5 |
| Chile | Economic Activity Indx (YoY) (NSA) | Dec | 3.70% | 5.5% | 4.70% |

* Forecast: Orange- Below consensus forecast. Green-Above consensus forecast.
 Source: Bloomberg and BBVA Research

Calendar: Indicators

Eurozone: Industrial production (December, February 13rd)

| | | |
|---------------------|----------------------|---------------------|
| Forecast: -0.4% m/m | Consensus: -0.1% m/m | Previous: -0.4% m/m |
|---------------------|----------------------|---------------------|

We expect industrial output to have declined again in December, at a similar pace to that observed in November, thus showing that the declining pace observed in September and October slowed significantly by year end. Even if this is the case, still industrial production would have declined by around -2.5% q/q over 3Q, consistent with our view of a sharp GDP drop in 4Q. Nonetheless, hard data seem to follow soft indicators performance, and this points to a less downbeat outlook for the industrial sector in the first months of 2013, though remaining in contractionary territory.

Eurozone: Flash estimate GDP (4Q12, February 14th)

| | | |
|---------------------|----------------------|---------------------|
| Forecast: -0.4% q/q | Consensus: -0.4% q/q | Previous: -0.1% q/q |
|---------------------|----------------------|---------------------|

We expect economic downturn to have deepened in 4Q12, with GDP falling by -0.4% q/q after -0.1% a/a in 3Q12, dragged down by domestic demand and a smaller support from the external sector. Mixed signs come from available data for Q4, as soft indicators improved since November, suggesting that the trough of the crisis should be behind us, but hard data declined sharply. Across countries, the contraction of GDP in late 2012 has been widespread. Our estimates envisage that both German (-0.4% q/q) and French (-0.2% q/q) GDP could have contracted, while recession has intensified in Italy (-0.6% q/q) and Spain (-0.7% q/q). In Portugal, we estimate that the pace of decline in output may have stabilized at negative values (-0.9% q/q).

US: Retail Sales, Less Autos (January, February 13rd)

| | | |
|----------------------------|---------------------------|--------------------------|
| Forecast: -0.1%, -0.2% m/m | Consensus: 0.0%, 0.1% m/m | Previous: 0.5%, 0.3% m/m |
|----------------------------|---------------------------|--------------------------|

Retail sales for January are expected to decline slightly after a spending increase in December at the end of the holiday shopping season. In anticipation of the payroll tax increase that began in January, most consumers chose to spend in December and most likely to withheld major purchases in January after seeing a hit to their paychecks. This can be seen in the weekly ICSC Goldman Sachs retail sales figure which declined every week in January by more than 1.5% a week, with the largest decline of 4.2% coming the week after the New Year. Vehicle sales also edged downward as consumers weighed the option of a new or used vehicle after the payroll tax increase. Both WTI and crude prices rose in January which will contribute to a boost in the nominal headline figure. However, we do expect that these price pressures will be muted after accounting for a slowing in core sales after the holiday season.

US: Industrial Production & Capacity Utilization (January, February 15th)

| | | |
|-----------------------|------------------------|-----------------------|
| Forecast: 0.2%, 79.0% | Consensus: 0.2%, 78.9% | Previous: 0.3%, 78.8% |
|-----------------------|------------------------|-----------------------|

Rising in December to a level last seen in 2008, industrial production should continue to grow but at a subdued pace due to headwinds and an overall mixed month for manufacturing and production. The national ISM manufacturing report for January was up a considerable amount when factoring in the political stresses of the past few months, showing quite a bit of optimism for industrial production. Production and new orders grew in the January report which signals a hopeful increase in both output and capacity utilization, as firms opt to increase production to meet the consumers demand. Another positive sign in the ISM was the increase in vehicle production in January that will further add to production. The Chicago ISM figure is also quite telling of the possible increase in production: surprisingly, it rose 8.5 points to 60.9 which is a very large spike considering production was relatively quiet toward the end of the year. However, various other regional Federal Reserve manufacturing surveys were quite negative for the month. Still, we expect that industrial production will continue its increase despite some political headwinds, following in the ISM's upward trend as the year begins.

China: Japan GDP (Q412 February 14th)

| | | |
|------------------------|------------------------|------------------------|
| Forecast: -0.3% q/q sa | Consensus: 0.1% q/q sa | Previous: -0.9% q/q sa |
|------------------------|------------------------|------------------------|

We expect Japan's economy to show a third consecutive quarter of contraction in Q4 based on recent weak activity indicators of both domestic and external demand. Growth in 2012 was disappointing, as reconstruction spending from the March 2011 earthquake and tsunami failed to offset weakness in other parts of the economy. Exports fell in December by -5.8% y/y from -4.1% in November, and retail sales decelerated to 0.4% y/y from 1.1% in November; meanwhile, industrial production fell in Q4, despite a weak recovery in December. This would bring full-year growth in 2012 to 1.9%. The weak outturns and persistent deflation have prompted Japan's new government, led by Shinzo Abe, to adopt fiscal stimulus measures, and to put pressure on the Bank of Japan to engage in more aggressive monetary easing (including stepped up asset purchases and announcement of a 2% inflation target). In reaction to these policies, the yen has depreciated sharply in recent months and the stock market has risen, in anticipation of an improvement in growth momentum in the coming quarters.

Markets Data

| | | | Close | Weekly change | Monthly change | Annual change |
|------------------------------------|------------------|-------------------------|---------|---------------|----------------|---------------|
| Interest rates (changes in bps) | US | 3-month Libor rate | 0.29 | 0 | -1 | -21 |
| | | 2-yr yield | 0.25 | -1 | 1 | -2 |
| | | 10-yr yield | 1.96 | -5 | 11 | -2 |
| | EMU | 3-month Euribor rate | 0.23 | -1 | 4 | -84 |
| | | 2-yr yield | 0.18 | -7 | 12 | -6 |
| | | 10-yr yield | 1.61 | -6 | 13 | -30 |
| Exchange rates (changes in %) | Europe | Dollar-Euro | 1.337 | -2.0 | 2.4 | 1.3 |
| | | Pound-Euro | 0.85 | -2.7 | 3.7 | 1.0 |
| | | Swiss Franc-Euro | 1.23 | -0.9 | 1.5 | 1.5 |
| | | Argentina (peso-dollar) | 5.00 | 0.2 | 1.2 | 15.0 |
| | America | Brazil (real-dollar) | 1.98 | -0.5 | -3.1 | 14.9 |
| | | Colombia (peso-dollar) | 1790 | 0.8 | 1.2 | 0.3 |
| | | Chile (peso-dollar) | 472 | 0.2 | 0.2 | -1.3 |
| | | Mexico (peso-dollar) | 12.74 | 1.0 | 0.1 | -0.5 |
| | | Peru (Nuevo sol-dollar) | 2.58 | 0.1 | 1.1 | -3.9 |
| | Asia | Japan (Yen-Dollar) | 92.65 | -0.1 | 5.4 | 19.4 |
| | | Korea (KRW-Dollar) | 1095.80 | -0.1 | 3.2 | -2.5 |
| | | Australia (AUD-Dollar) | 1.031 | -0.9 | -1.9 | -3.4 |
| | Comm. (chg %) | Brent oil (\$/b) | 118.9 | 1.8 | 6.4 | 1.3 |
| Gold (\$/ounce) | | 1668.3 | 0.1 | 0.6 | -3.1 | |
| Base metals | | 539.9 | -1.0 | 1.9 | -1.6 | |
| Stock markets (changes in %) | Euro | Ibex 35 | 8165 | -0.8 | -5.1 | -7.2 |
| | | EuroStoxx 50 | 2628 | -3.0 | -2.9 | 5.9 |
| | America | USA (S&P 500) | 1516 | 0.2 | 3.8 | 12.9 |
| | | Argentina (Merval) | 3277 | -7.2 | 6.7 | 20.4 |
| | | Brazil (Bovespa) | 58179 | -3.6 | -5.5 | -9.1 |
| | | Colombia (IGBC) | 15007 | -0.7 | 1.3 | 6.5 |
| | | Chile (IGPA) | 22265 | 0.2 | 3.0 | 5.9 |
| | | Mexico (CPI) | 45127 | -1.4 | 0.6 | 18.3 |
| | | Peru (General Lima) | 21714 | -0.4 | 0.6 | -3.5 |
| | Venezuela (IBC) | 566643 | 14.7 | 19.5 | 325.6 | |
| Asia | Nikkei225 | 11153 | -0.3 | 5.4 | 24.7 | |
| | HSI | 23215 | -2.1 | 0.0 | 11.7 | |
| Credit (changes in bps) | Ind. | Itraxx Main | 118 | 7 | 15 | -16 |
| | | Itraxx Xover | 457 | 24 | 32 | -140 |
| | Sovereign risk | CDS Germany | 43 | 1 | 2 | -42 |
| | | CDS Portugal | 400 | 6 | 6 | -743 |
| | | CDS Spain | 290 | 18 | 30 | -73 |
| | | CDS USA | 43 | -1 | 3 | -- |
| | | CDS Emerging | 230 | 3 | 22 | -35 |
| | | CDS Argentina | 2370 | 243 | 629 | 1571 |
| | | CDS Brazil | 119 | 2 | 11 | -21 |
| | | CDS Colombia | 97 | 1 | 3 | -34 |
| | | CDS Chile | 70 | 1 | 3 | -35 |
| | | CDS Mexico | 99 | 0 | 5 | -39 |
| CDS Peru | 96 | 0 | 1 | -61 | | |

Source: Bloomberg and Datastream

Weekly Publications

| Country | Date | Description |
|----------|------------|---|
| EMU | 02/08/2013 | <p>➤ ECB Watch: ECB maintains a cautious stance As expected, at today's monetary policy meeting the ECB kept rates unchanged at 0.75% and took no additional steps on non-standard liquidity measures.</p> |
| | 02/05/2013 | <p>➤ Europe Flash. Portugal: The recession will be somewhat more moderate in the first quarter Compliance with the 2012 deficit target should help Portugal access to financial markets (Spanish version) (Portuguese version)</p> |
| Spain | 02/07/2013 | <p>➤ Flash España: Producción industrial en diciembre Pese a que los datos de diciembre siguen siendo compatibles con la tendencia de deterioro de la producción industrial, se constata cierta desaceleración de ese deterioro respecto al 1S12.</p> |
| | 02/04/2013 | <p>➤ Flash España: Afiliación a la Seguridad Social y desempleo registrado en enero 2013 comienza con un deterioro de los registros del mercado laboral menor del que apuntaban las previsiones.</p> |
| US | 02/07/2013 | <p>➤ U.S. Banking Watch. Consumer Credit: Monthly Situation Report December's seasonally-adjusted consumer credit increase of \$14.6B MoM hints at more debt for consumers, although not as much on their credit cards as revolving credit declined by \$3.6B.</p> |
| | 02/07/2013 | <p>➤ U.S. Economic Flash. Sequestration presents downside risks to growth Congress' delay of its self-imposed sequestration measures, provisioned in the second phase of Budget Control Act (BCA), reduces the probability of negative growth in 1Q13.</p> |
| | 02/07/2013 | <p>➤ U.S. Monthly Outlook Slides February 2013</p> |
| | 02/05/2013 | <p>➤ U.S. Economic Flash. ISM Non-Manufacturing Slows But Signs of Growth Abound The ISM Non-Manufacturing Index fell to 55.2 in January, noting a moderate slowdown in overall and new orders.</p> |
| | 02/05/2013 | <p>➤ U.S. Economic Watch. Monthly US Outlook: February Some Promising Economic News as 2013 Gets Underway (Spanish version)</p> |
| | 02/04/2013 | <p>➤ U.S. Weekly Flash. Durable goods orders increased 4.6% in December and 1.3% excluding transportation Since the collapse seen in the summer of 2012, falling as much as 13% in August, durable goods orders have maintained some consistency to finish up the year (Spanish version)</p> |
| Latam | 02/07/2013 | <p>➤ Flash Brasil: Inflación en niveles incómodamente altos La inflación aumentó por el séptimo mes consecutivo y alcanzó 6,15% en enero.</p> |
| | 02/07/2013 | <p>➤ Latam Daily Flash: Consumer confidence slightly better than expected in January in Mexico</p> |
| | 02/06/2013 | <p>➤ Latam Daily Flash Activity surprised to the upside at the end of 2012 in Chile; inflation slowed in January in Colombia</p> |
| | 02/05/2013 | <p>➤ Latam Daily Flash: Colombian oil company to finance 50% of its investments in COP to deal with appreciation pressures</p> |
| | 02/04/2013 | <p>➤ Latam Daily Flash: Policy minutes: more hawkish in Chile, more dovish in Mexico; inflation within the target range in Peru</p> |
| Brasil | 02/07/2013 | <p>➤ Brazil Flash: Inflation at uncomfortably high levels Inflation increased for the seventh consecutive month and reached 6.15% in January.</p> |
| Chile | 02/05/2013 | <p>➤ Actividad económica muestra escasa desaceleración al cierre de 2012 El Imacec aumentó 4,7% a/a en diciembre, la cifra se situó por sobre las expectativas del mercado. Los sectores que lideraron este incremento fueron comercio y servicios.</p> |
| | 02/04/2013 | <p>➤ Potencialidad del desarrollo de hipotecas inversas como complemento pensionario: el caso de Chile El presente trabajo analiza las potencialidades del desarrollo de las hipotecas inversas como alternativa de ingresos para la vejez. Se centra en el estudio del caso de Chile.</p> |
| Colombia | 02/05/2013 | <p>➤ Flash Colombia. Inflación al consumidor de enero se ubicó en el límite inferior del rango meta en 2,0% Con una variación menor a la esperada por el mercado de 0,3% m/m (0,54% consenso y 0,52% BBVA Research), la inflación anual en enero se ubicó en 2,0%.</p> |

- Peru** 02/07/2013 ➤ **Banco Central mantiene tono neutral para su tasa**
En línea con lo esperado, el Banco Central mantuvo su tasa de política monetaria en 4.25%.
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- Mexico** 02/07/2013 ➤ **Mexico Inflation Flash. January's inflation: Monthly Inflation Surprises Upwards due to Telephone Services; However Inflation keeps Easing Annually**
General: Actual: 0.40% m/m vs. BBVA: 0.26% m/m Consensus: 0.30% m/m Core: Actual: 0.42% m/m, vs. BBVA:0.21% m/m Consensus:0.29% m/m ([Spanish version](#))
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- Emerging Markets** 02/06/2013 ➤ **Explosión de la clase media emergente**
El proceso explosivo ya está en marcha. El auge de la clase media se acelerará esta década. La extensión de la clase media fomenta la inclusión financiera.
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- Asia** 02/08/2013 ➤ **Asia Daily Flash | 8 February 2013: Upbeat China data before CNY; Japan's current account deficit widens**
China's export and credit data is bolstering confidence in the durability of the growth pickup, although caution is in order in interpreting it due to distortions from the timing of the Lunar New Year
- 02/07/2013 ➤ **Advances in India's banking reforms**
3 banking bills were enacted in Jan awaiting approval. If implemented, they should widen the scope for foreign bank entry and facilitate financial inclusion and improvements in regulatory compliance.
- 02/07/2013 ➤ **Asia Daily Flash | 7 February 2013: India's Statistics Office lowers FY13 growth forecast; Australia unemployment data hints at weakness; Taiwan's exports rise**
We await China's inflation and trade data, the last key data release before the Chinese New Year, when many markets will be closed for all (CN and TW) or part (HK, SG, JP, among others) of next week.
- 02/06/2013 ➤ **Asia Daily Flash | 6 February 2013: China unveils income redistribution plan; Offshore RMB business begins in Taiwan; Australia retail sales disappoint**
The Japanese yen continued its slide today, approaching the 94-level against the USD for the first time since May 2010, while the Nikkei surged by 3.8% for the day, reaching a new high for the year.
- 02/05/2013 ➤ **Asia Daily Flash | 5 February 2013: Australia leaves rates on hold; HKMA cautious on property market; Indonesia posts solid Q4 growth**
Fresh concerns in global markets from renewed financial and political tensions in Europe spread to Asia. Hang Seng Index slumped to its lowest level in a month, down 2.3% while Nikkei slid by -1.9%.
- 02/05/2013 ➤ **The Sequence of China Financial System Reforms**
Chinese version
- 02/04/2013 ➤ **Asia Daily Flash | 4 February 2013: Weak data in Australia ahead of RBA meeting tomorrow; China's non-manufacturing PMI rises**
US payrolls data helped lift Asian shares. Philippines stock market closed at a new record after Friday's stronger-than-expected Q4 GDP outturn. Yen continues its fall breaking through the 93 level.

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